The State of Small Business

1989 Annual Report on Small Business in Ontario

MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY

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The State of Small Business

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Annual Report on Small Business in Ontario

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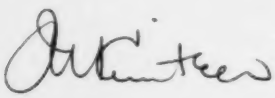
Minister of Industry, Trade and Technology

It is with pleasure that I present the fourth annual report on The State of Small Business in Ontario. The contribution that small businesses make to our economy is once again highlighted in this edition through the data and new research findings.

I am grateful for the work of my former Parliamentary Assistant and Small Business Advocate, Mr. Steven Mahoney, M.P.P., and his colleagues on the Committee of Parliamentary Assistants for Small Business.

Mr. Douglas Carrothers, M.P.P., my new Parliamentary Assistant, who is Small Business Advocate, now chairs the Committee of Parliamentary Assistants for Small Business and will be continuing its worthwhile activities.

Over the next year, this Ministry will be looking to the future of entrepreneurship by emphasizing the importance of youth and education. Visions, a program to bring entrepreneurs into the classroom, will be starting in 1990. As well, many secondary schools will offer a new course in entrepreneurship. I know students and teachers will find this report a useful aid, bringing current information and relevant business issues into the educational system.



Monte Kwinter
Minister

The Honourable Monte Kwinter
Minister
Ministry of Industry, Trade and Technology
8th Floor, Hearst Block
Queen's Park
Toronto, Ontario

Dear Mr. Minister:

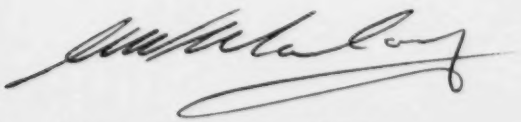
It is my privilege to present to you the fourth annual report on The State of Small Business, prepared during my tenure as your Parliamentary Assistant and the Small Business Advocate for Ontario.

The 1989 report focuses on the world of the entrepreneur and includes a section on people employed in small businesses. The importance of small business to our changing economy is once again clearly evident in new research findings.

I wish every success to your new Parliamentary Assistant, Mr. Douglas Carrothers, M.P.P., as the new Small Business Advocate and Chairman of the Committee of Parliamentary Assistants for Small Business.

On behalf of the outgoing committee and myself, I thank you and your Ministry staff for the dedicated support we received.

Yours sincerely,



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Bill Lampert,
Elli Murack.

THE STATE OF SMALL BUSINESS ONTARIO, 1989 SUMMARY

PART I

The World of the Entrepreneur

Ontario is Canada's most entrepreneurial province. In 1986, 408,000 Ontarians were self-employed. That's 8.3% of the workforce. It's also about 34% of the 1,209,000 self-employed in the whole country.

The number of new business starts at the end of this decade has risen to half as much again as the number at the end of the 1970s. Between 1981 and 1986, the number of self-employed Ontarians grew by 14%.

Self-employed people earn almost 50% more, on average, than employees.

Start-ups

Ten years after start-up, only a quarter of new businesses are still operating. Almost half of them go under in the first three years. There is a core of businesses that are long-term successes, but the average life of all small business is only 7 years.

About a half of all new ventures are incorporated. One-third of them incorporate immediately on start-up and the rest do so within three years.

Owners of incorporated firms invest more, they have higher expectations of growth and they employ more people. Their companies also generate much higher earnings for their owners, who take home a third more than owners of unincorporated businesses.

Only one-half of the owners of new ventures have direct or related experience in the field they are entering. By contrast, up to the 1981-82 recession, 60% had experience running a business and about 80% had relevant experience in the field of their new business.

About half of the owners of new ventures expect to grow to

become big companies. Half of them prepare business plans, compared to one-third of the people who do not expect to grow big.

Half of all new ventures now are started without borrowing a cent. Only one-eighth of new unincorporated businesses raise equity financing and just more than a third borrow from the banks. About 30% comes from their own pockets and the rest is "love money" from their relatives and friends. The average investment to start a new business now is less than $50,000. More than a half of all start-ups have less than $15,000 invested in them.

Half of the people who go into business for themselves run their new firms from their homes and 42% keep their jobs as employees, running their businesses part-time until they build it up to the point where they can quit and become full-fledged entrepreneurs.

Demographics

The average age of self-employed people is 44, compared to 36 for employees. There are young entrepreneurs, of course, but only 4% of the self-employed are younger than 25, compared to 23% of the whole labour force. Self-employed people aged 35-44 account for 29% of the total, compared to 22% of employees.

These young self-employed people are much better educated than their predecessors. Less than a half of the self-employed people over 45 have post-secondary education, compared to almost two-thirds of those under 45.

Entrepreneurs with post-secondary education earn almost 20% more than the average income for all entrepreneurs. The rest earn less than 80% of the average .

Motivation

The top six motivations of people starting a business are:

- The need to achieve;
- The need to be their own boss;
- A perceived opportunity in the marketplace;
- The wish to do things their own way;
- The adventure of independence; and
- The money.

Once they have established themselves, the top six motivations of successful entrepreneurs are:

- Having fun;
- Building an organization;
- Money;
- Winning in business;
- Recognition; and
- A sense of accomplishment.

Strategy and Information Needs

When they start their businesses, new entrepreneurs need lots of specific advice, so they seek out professionals, bankers and people in the same business. Once they mature and become established, however, they need a different kind of information, such as intelligence about the strategies of competitors, discontinuities in the economy and technological breakthroughs. Often they don't even know if the information they're looking for exists at all. So they develop antennae, mainly by reading and developing personal networks, so that they can at least become aware of what information they should be trying to acquire.

About a half of successful entrepreneurs read an hour or more a day. Three-quarters make a special effort to build a personal network. Unlike the people in start-ups, these people spend most of their time with businesspeople, often in unrelated businesses, who can offer insights into the opportunities and problems in their own industry. Their next most popular contacts in their networks are customers, government people and their own suppliers. Professionals are last.

Only 40% of established entrepreneurs have an active board of directors.

Women

Women are acquiring a higher profile as self-employed people. They now account for about half of the increase in the self-employed. However, only 4.5% of the female labour force are self-employed, compared to 11.25% of men. Still, women now represent almost a quarter of all self-employed people in Ontario and Canada.

When they start a business, women have lower expecta-

tions. They invest less of their money and time in it until they are sure it will fly. Men are more inclined to go for rapid growth immediately. Women accordingly fail less and they earn much less. Women with unincorporated businesses earn less than half what men earn in unincorporated businesses. However, women with incorporated businesses earn 60% of the earnings of men with incorporated businesses.

PART II

The Economic Impact of Small Business

Small firms are the frontrunners in job creation. At the end of the 1970s, they accounted for about half the new jobs. By 1987, firms with fewer than 100 employees accounted for 90% of the new jobs in Canada, 75% in Ontario.

Between 1978 and 1987, small firms in Ontario increased their employment by 69%, compared to 50% elsewhere in Canada and 10% in Ontarian big firms. A small group of 1,500 firms (0.72% of all firms) that grew particularly fast accounted for 20% of all new jobs created in the province between 1978 and 1987.

Firms with fewer than 100 employees now employ 33% of total labour force, or 39% of the private-sector workers. Across Canada, in the private sector, small firms now employ more people than the big firms with more than 500 employees.

New ventures accounted for about 95% of the new jobs created in Ontario during 1978-87.

More than 90% of the province's 300,000-odd firms employ fewer than 20 people and their average number of employees is 4.4. The average size of all of Ontario's firms has fallen three percentage points in the past nine years, to 15 employees per firm. If governments and their agencies are excluded, the average firm size is only 13. (In the rest of Canada, it's nine.)

The big stars of job creation are personal and business services, community services and retail trade. These three together accounted for 60% of the new jobs in Ontario between 1978 and 1987. The power behind these are two stellar industries — services to business and health and welfare. The former is growing at 7% a year in Ontario, far outpacing any other industry.

PART III

The role of Government in Small Business

The Ontario government decided to address start-ups as a mass market, starting in 1984-85, and has put in place well-developed start-up assistance. The Ontario government also created the advocacy program to run interference for beleaguered small businesses when other ministries propose laws or regulations that affect them. The Ontario government also embarked on a series of studies to divine what makes entrepreneurs successful. Programs like the Small Business Development Corporations in the early 1980s and New Ventures in the later 1980s made a solid contribution to promoting entrepreneurship. With an average start-up investment of slightly more than $13,000, New Ventures is developing grass roots entrepreneurship. The Ontario government's counselling program is also providing expert advice in navigating the regulatory and management shoals threatening new and growing businesses.

This phase of government initiative is maturing now. SBDCs have levelled off, although New Ventures is just gathering momentum. With business self-help offices in place across the province, the government is ready to implement new initiatives, both before and beyond the start-up phase.

One step behind the start-up is the informal investor network, the "angels" who fund new entrepreneurs before they reach the stage when they can draw on commercial financing. Before even that stage, the Ontario government is deeply engaged in developing entrepreneurial options for the high-school system. With an experimental new curriculum on entrepreneurship being developed in high schools now and other programs to bring entrepreneurs into the classrooms, young Ontarians are being given an opportunity to appreciate the life of an entrepreneur.

The major needs of small firms at the beginning of the 1990s are in advanced management skills, in dealing with people and in developing management systems to absorb the mounting flow of raw information. There is a role for government to develop an appreciation in small firms of the need for these skills. Effective government programs will help them understand the value of these skills, thereby opening the door

to the private sector to deliver these services at higher, commercially viable rates. For example, the government has introduced a program, called Technical Personnel Program, that will help small firms hire the technical expertise they need to enable their operations to compete effectively abroad.

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PART I

The World of the Entrepreneur

CHAPTER 1
ENTREPRENEURS

In the course of the past decade, there has been a remarkable shift in people's attitudes toward earning a living. One of the more powerful trends is the surging growth in self-employment. Entrepreneurship has long been admired as an economic force. Now it is acquiring enough social cachet to release many of the constraints that have kept potential entrepreneurs working for other people.

Ontario leads Canada in the rate of increase in the self-employed, although the rest of the country still has a higher proportion of self-employed people in the labour force. In 1986, 408,000 Ontarians were self-employed, up 14% from 1981. The self-employed now account for 8.3% of the workforce in Ontario. Almost 34% of the 1.2 million self-employed people in Canada work in Ontario.

The increase in the number of self-employed people is pushing the rate of new business formations to new heights. The number of new business starts at the end of this decade has risen to half as much again as the number at the end of the 1970s.

There are many reasons for this, among them the following:

- Job security in big businesses is more elusive than it has ever been. People who don't fit are more likely to be laid off now — and that includes very capable people who are square pegs in round holes. Many other employees are becoming dissatisfied with life in big organizations. Either way, more and more people, at all levels of big organizations, are turning to self-employment.
- At the same time, the downsizing by big firms has created many opportunities for sub-contracting. People who may once have worked for big companies are now suppliers of services or products to their former employers.
- It's easier to become an entrepreneur now, because most of the growth in the economy is in services, and it costs much less to start a firm in the service industry than it does in manufacturing.

- Self-employed people earn almost 50% more, on average, than employees.

Taking the decision to go on their own, however, is only the first step. The initiation into self-employment can be arduous and expensive. Some of them fail. Others decide it isn't worth it and fold their businesses. Ten years after start-up, only a quarter of new businesses are still operating. Almost half of them go under in the first three years. There is a core of businesses that are long-term successes, but the average life of all small business is only seven years.

This is not as serious as it may seem. Many of the failures are part of the learning curve of new entrepreneurs who may fail in two or three ventures before they establish themselves as successful businesspeople. So the turnover in businesses may be high, but the number of self-employed people grows steadily.

About a half of all new ventures are incorporated. One-third of them incorporate immediately on start-up and the rest do so within three years. There is an important distinction between the two classes of business. Owners of incorporated firms are generally more serious about making their businesses grow. They invest more, they have higher expectations of growth and they employ more people. They are also more professional in their preparation for the start-up. It shows in their results. Their companies grow much faster than unincorporated businesses and generate much higher earnings for their owners, who take home a third more than owners of unincorporated businesses.

* * *

The higher overall level of start-ups has its drawbacks. People now are prepared to embark on new ventures with relatively little experience or money. Only one-half of the owners of new ventures have direct or related experience in the field they are entering. Up to the 1981-82 recession, 60% had experience running a business and about 80% had relevant experience in the field of their new business.

This may not be a problem if the new entrepreneurs have limited expectations for their businesses. Many turn to self-employment to meet lifestyle needs and don't want to grow big. But about half of the owners of new ventures expect to

grow big companies. These people lack experience too, but they prepare for their ventures more carefully. Half of them prepare business plans, compared to one-third of the people who do not expect to grow big. This is more thorough preparation than was the case just ten years ago, thanks mainly to lenders and investors, who demand business plans from putative entrepreneurs these days.

Then again, a lot don't raise much money, particularly if they dip their toes into self-employment rather than plunge in head first. Half of all new ventures now are started without borrowing a cent. Only one-eighth of new unincorporated businesses raise equity financing and just more than a third borrow from the banks. About 30% comes from their own pockets and the rest is "love money" from their relatives and friends. The average investment to start a new business now is less than $50,000. More than a half of all start-ups have less than $15,000 invested in them.

The other side of this coin is that newly self-employed people are more cautious. They understand they have to feel their way first. Half of them run their new firms from their homes and 42% keep their jobs as employees, running their businesses part-time until they build it up to the point where they can quit and become full-fledged entrepreneurs.

Even if they are not experienced in business, entrepreneurs need to be experienced in life. They have to have enormous strength of character and they have to be able leaders. These characteristics are less common in young people than in those with more experience. Indeed, the average age of self-employed people is 44, compared to 36 for employees. There are young entrepreneurs, of course, but only 4% of the self-employed are younger than 25, compared to 23% of the whole labour force. The young people become a far greater force when they reach 35. People aged 35-44 dominate the ranks of the self-employed, accounting for 29% of the total. Only 22% of employees are aged 35-44.

These young self-employed people are much better educated than their predecessors. Less than a half of the self-employed people over 45 have post-secondary education, compared to almost two-thirds of the under 45s. This is not an academic point. Entrepreneurs with post-secondary education earn almost 20% more than the average income, while

the rest earn more than 20% less.

* * *

The motivations that drive these people to subject themselves to the hard labour and heartache of starting a new business are mostly related to wanting the freedom to do things their way, although there is a tinge of business acumen to give it some form. The top six motivations of people starting a business are:

- The need to achieve;
- The need to be their own boss;
- A perceived opportunity in the marketplace;
- The wish to do things their own way;
- The adventure of independence; and
- The money.

Many deny the last motivation, because they are concerned that people will think badly of them or they'll seem to be greedy. But, when entrepreneurs are interviewed intensively, most of them will admit to being motivated by money. They work so hard, they deserve it.

Once they have established themselves, the motivations change, naturally. Being your own boss and doing things your own way are motivating only when you are not your own boss. The top six motivations of successful entrepreneurs are:

- Having fun;
- Building an organization;
- Money;
- Winning in business;
- Recognition; and
- A sense of accomplishment.

* * *

One of the biggest challenges for entrepreneurs is gathering all the information they need. The bureaucracies of big business and government are expert in this task, but entrepreneurs seldom have the time to collect all the information they need. This means some of their decisions are based on questionable information, but they compensate with a marvellous intuition based on their broad-based knowledge of their business.

When they start their businesses, they need lots of specific advice, so they spend most of their free time with

professionals, bankers and people in the same business. Once they mature and become established, however, they start looking around at opportunities for expansion. This creates a demand for a different kind of information — intelligence about the strategies of competitors, discontinuities in the economy, technological breakthroughs and so on. Often they don't even know if the information they're looking for exists at all. The answer is to develop antennae, mainly by reading and developing personal networks, so that they can at least become aware of what information they should be trying to acquire.

About a half of successful entrepreneurs read an hour or more a day. Three-quarters make a special effort to build a personal network. Unlike the people in start-ups, these people spend most of their time with businesspeople, often in unrelated businesses, who can offer insights into the opportunities and problems in their own industry. Their next most popular contacts in their networks are customers, government people and their own suppliers. Professionals are last.

One of the most useful forms of networking is an active board of directors, but only 40% of established entrepreneurs have them. Too many entrepreneurs think they come up with all the good ideas for their businesses, so they don't feel it's necessary to bother with outside directors, who may start "meddling" in the firm's affairs. This can become a weakness.

Another significant potential weakness lies in the internal management of entrepreneurial firms. Few business owners place a high priority on human resource management. When they have problems recruiting and retaining good employees, many of them blame the economic environment, the education system or the local vocational training facilities. Sometimes they are right, but often their problems reflect their neglect, a few years previously, of human resource management.

When their firms are small and still struggling to survive, business owners cannot afford to spend too much time stroking their employees. The employees understand this, too. As the firm grows, however, the owner has to make the transition from a supervisor who makes all the decisions to a leader who lets employees make their own decisions. This makes it more dangerous to ignore human resource manage-

ment. Once firms reach 50 to 75 employees, the need for it becomes obvious and most of them respond. But for firms with 10 to 50 employees, the need is less obvious to extremely busy owners and they frequently don't bother, giving human resource management a low priority. This represents an important gap in the management skills of Ontario small businesses.

* * *

One aspect of all the current trends in self-employment is the growing role of women, who account for about half of the increase in the self-employed. However, it has still not taken hold among women to the same degree it has among men, 11% of whom are self-employed, compared to 4.5% of women. Still, women now represent almost a quarter of all self-employed people in Ontario and Canada, and they are changing the culture of entrepreneurship.

A much higher proportion of women than of men have unincorporated businesses. And most of the people who are running their businesses part-time and/or out of their homes are women. Both these facts reflect their more cautious approach. When they start a business, women have lower expectations of where they'll go with it and they accordingly invest less of their money and time in it until they are sure it will fly. They prefer to test a business idea with minimal investment before they take the plunge and go after significant growth. Men are more inclined to go for rapid growth from the word go, making a bigger investment in cash and in their egos. There are two consequences in all this for women. They fail less and they earn much less. Women with unincorporated businesses earn less than half what men earn in unincorporated businesses.

It is likely that, as women become more accustomed to self-employment, they will start being more adventurous. A strong indication comes from the women who have incorporated their businesses. They earn 60% of the earnings of men with incorporated businesses — a higher ratio than women enjoy among all employees and much higher than among the unincorporated self-employed, of course. Because they are newer to the game and own smaller companies, it's not surprising that they should earn less. For the moment.

THE SMALL BUSINESS FACT SHEET

Number of firms, 1986	**Ontario**	**Canada**
Total	290,260	851,492
In small firms	284,066	840,694
Small firms as a percentage of total	97.9%	98.7%
Increase in number of firms, 1978-1986		
Total	74,737	250,664
Small firms as a percentage of total	98.9%	99.3%
Average growth rate p.a. for big firms	1.9%	2.1%
Average growth rate p.a. for small firms	3.8%	4.5%
Number of jobs, 1986		
Total (000s)	4,381.6	10,776.1
In small firms (000s)	1,456.7	3,904.1
Small firms as a percentage of total	33.2%	36.2%
Net gain in jobs, 1978-1987		
Total (000s)	1,021.1	2,042.9
Total percentage increase over period	29%	22%
In small firms (000s)	765.7	1,736.3
Percentage increase in small firms	69%	57%
Share of small firms in net increase	75%	85%
Average growth rate p.a. in big firms	1.1%	0.5%
Average growth rate p.a. in small firms	6%	5%
The big winners		
Share of total employment growth in:		
Personal and business services	28%	31%
Community services	16%	21%
Retail trade	16%	19%
Small-business share of employment growth in:		
Personal and business services	75%	81%
Community services	42%	48%
Retail trade	73%	78%
The self-employed		
Number of self-employed people, 1986	408	1,209
Percentage who are women	24%	22%
Percentage aged less than 25: self-employed	4%	4%
employees	23%	23%
Increase in self-employed, 1981-86		
Total (000's)	50	114
Percentage increase	14%	10%
Increase in self-employed women	27%	27%
Increase in self-employed men	10%	6%

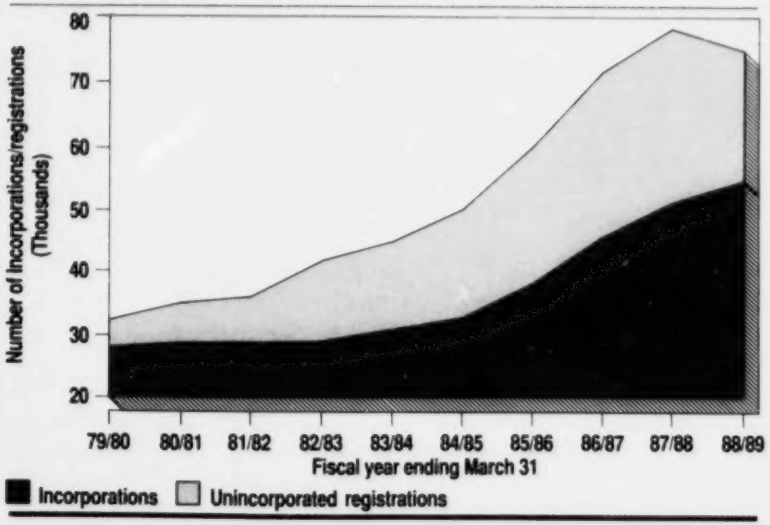
Source: Statistics Canada, Business Microdata Integration and Analysis, Small Business & Special Surveys and 1986 Census.

CHAPTER 2
THE START-UP REVOLUTION

An unexpected dividend of the 1981-82 recession, which wreaked so much devastation on all levels of business in Ontario, has been the subsequent, remarkable surge in new business formations. It started in 1982, when the number of registrations of unincorporated companies jumped sharply, then continued rising, as it doubled within five years. Incorporations started rising rapidly about three years later, as Chart 2.1 shows, and also appear to be doubling in the five years following the initial surge.

Chart 2.1[1]
The Explosion of Start-up Activity

Annual registrations of unincorporated businesses and incorporations in Ontario, 1979-89



[1] Internal research, Ministry of Industry, Trade & Technology, based on data from the Ministry of Consumer and Commercial Relations

The fall in registrations of unincorporated businesses in 1988-89 probably reflects the significant increase in the registration fee, but it may also reflect a period of consolidation as the surge in start-up activity matures into the operation of established firms.

These statistics give an accurate impression of the amount of activity surrounding business start-ups. They are less reliable in measuring the actual number of new businesses started in any one year. They suffer from significant overcounting for a number of reasons. Many incorporations are made by existing unincorporated businesses, or parts of existing businesses. Also, both incorporations and registrations of unincorporated businesses often do not reflect business formations in the year of incorporation or registration. Many people register businesses with the intent of starting a business later and others register even though their businesses have been active for many years.

A recent study of start-ups for the federal government[2] examined 1,731 incorporations and registrations of new businesses in 1987 and found that only 59% of them actually started a business in 1987. 21% had started their businesses between 1970 and 1986, another 14% started in 1988 and 6% did not say when they started operations. When the survey was conducted, in the fall of 1988, 8% of them had not yet started operations and 4% had no idea when they would start, if ever.

The statistics used above and in previous issues of *The State of Small Business* are adjusted to compensate for this overcounting, but the best indication of actual start-ups probably comes from the statistics in the Business Microdata Integration and Analysis, produced by Statistics Canada. Even these statistics are not ideal, however. They count only those firms that employ one or more people. Self-employed people and their partners who do not employ anyone, as well as unpaid family workers are left out. These omissions account for about 10% of total employment and 3% of total payroll income. On the other hand, these statistics overstate

[2] *Study of Business Start-ups in Canada*, Decision Marketing Research Limited, 1988

the real numbers because some of the "new" firms are corporate reorganizations of existing businesses, including incorporated parent and subsidiary firms.

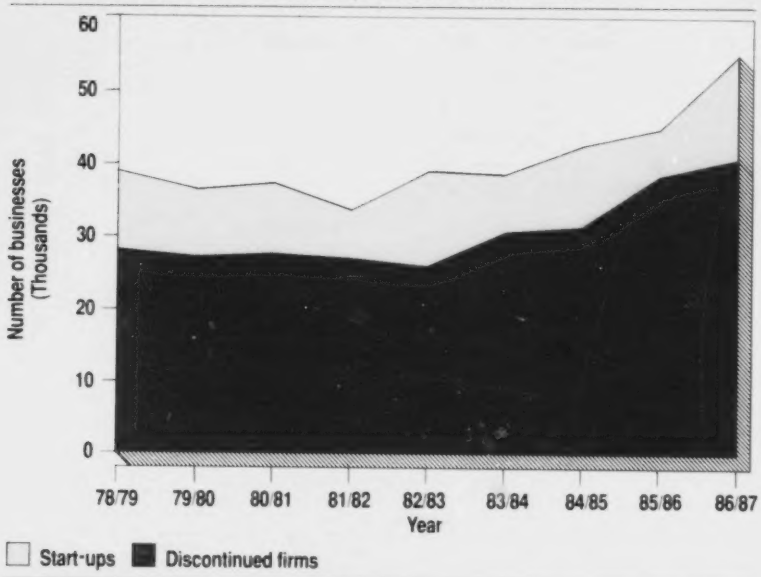
The net effect is that these numbers for new business formations are significantly lower than those used in previous editions of *The State of Small Business*. However, they probably offer the most accurate perspective of actual start-ups, given that there is no definitive measure. At the very least, they give a sound indication of trends in the businesses that offer the most hope for growth — those that hire people to work for them. They have therefore been used in Chart 2.2, which shows the number of actual start-ups and disappearances of businesses over the same period as Chart 2.1.

The trends shown in Chart 2.2 are similar to those shown by Chart 2.1. However, there was a lag of three or four years before the start-up activity following the recession translated into a surge of new business formations. Start-ups dipped sharply during the recession, naturally enough, recovered strongly in the following year and held steady during the year after that. Since then, however, start-ups have grown powerfully every year, as Chart 2.2 shows. The net effect has been to raise the total number of businesses in Ontario by 41% from 215,523 in 1978 to 304,418 in 1987, which is equivalent to an annual increase of 3.9%

Chart 2.2[3]

Business Starts and Stops

Number of new firms and discontinued operations, Ontario, 1978-87



The trends for discontinued firms follow the lead of start-ups, with a predictable lag, this time of about one year. Because there is such a high rate of discontinuance in the first year of business for start-ups, any increase in new business formations quickly translates into an increase in failures.

Similar problems exist for the tabulation of discontinued businesses as for start-ups. Some of the businesses counted as discontinued in the database used in this chapter have been taken over by other businesses or been transferred to another database. The data have been adjusted as far as possible to compensate for the vagaries of data collection from statistics

[3] Statistics Canada, Small Business and Special Surveys, in a special run for the Ministry of Industry, Trade & Technology, extracting longitudinal data on discontinued firms, by number of years since start-up, 1989

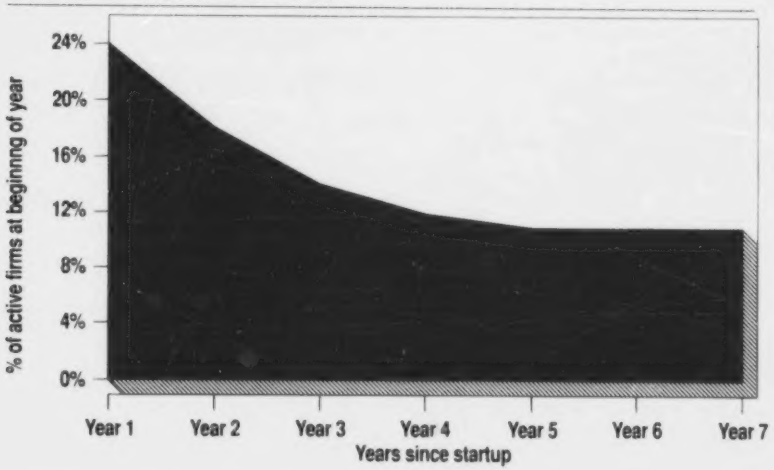
assembled for other purposes, but it is still likely there are overstatements. Again, however, the trends they exhibit are accurate and the relationship to start-ups is consistent.

These statistics show that the average life of a business is about seven and a quarter years. Almost a quarter of new firms are discontinued within their first year of operation, some because they have failed, others because they are sold or wound up. The rate at which new businesses disappear comes down sharply in the following few years, however, as Chart 2.3 shows. After about four years, the failure rate flattens out. It appears that, out of every 100 firms more than four years old at the beginning of any year, about 10 cease operations within that year.

Chart 2.3[4]

The Annual Disappearance Rate of New Businesses

Percentage of firms that fail, cease operations or are taken over, expressed as a percentage of the number of firms at the beginning of each year, Ontario, 1978-87



[4] Ibid. Statistics Canada, Small Business and Special Surveys

The effect of the rate at which businesses are discontinued is shown in Table 2.1. Only about a quarter of new firms are still operating ten years after they started. Almost half of all start-ups disappear within three years.

Table 2.1[5]
The Casualty List for Start-ups

Percentage of original firms that cease operations each year and the cumulative loss of businesses by the number of years since start-up - average for Ontario firms started during 1978-87

Years since start-up	Disappearance rate per annum	Cumulative disappearances
	%	%
1	24	24
2	14	38
3	9	47
4	7	54
5	5	59
6	5	64
7	4	68
8	3	71
9	3	74
10	2	76

This high rate of attrition in the early years after a new business is formed is the main reason that the number of discontinued businesses rises so sharply in Chart 2.2 after 1983.

Of course, many of the people whose businesses fail come back and try again. The fate of owners should not be confused with that of their early businesses. The demographic profile[6] of the owners of these new ventures is as follows:

- More than 80% of them were born in Canada and 95% are Canadian citizens;
- Almost 30% are women;

[5] Ibid. Statistics Canada, Small Business and Special Surveys
[6] Ibid. *Study of Business Start-ups in Canada.*

- Two-thirds have more than a high school education (44% completed degrees at university or community college and 23% studied there but didn't graduate); and
- Their average age was 38 and 70% of them were aged 25 to 45. Only 7% were younger than 25.

Preparation and Expectations at Start-up

Not everyone who starts a business expects it to grow into a megacorporation. A recent study[7] conducted for the Ministry of Industry, Trade & Technology found that about half of new businesses expect to grow big and 40% expect just to make a living. By the time these people responded to this study's survey in 1988, however, their expectations had become slightly more ambitious. Only 31% of the respondents expected employment in their businesses to decline or stagnate and 61% expected continued growth. Nonetheless, expectations at start-up have a significant effect on the subsequent growth of these businesses, as Table 2.2 shows. Close to one half of the people who expected just to make a living were still expecting no growth or a decline in employment in 1988, compared to less than a quarter for the ones who expected to grow big when they started.

Table 2.2[8]
Expectations Then and Now

People's expectations of growth at start-up compared to those at the time the survey was completed in 1988

Expectations of growth at start-up	Expectations of growth in 1988*: None	Slow	Fast	Total
	%	%	%	%
Will grow big	23	61	16	100
Will just make a living	43	47	10	100

* Expectations were for growth in the number of employees. Those included under "None" expected either a decline in employment or no change.

[7] *Newly formed Small Businesses in Ontario, 1982-87*, by Laventhol & Horwath, for the Ministry of Industry, Trade & Technology, 1988

[8] Ibid. *Newly-formed Small Businesses in Ontario, 1982-87*

Optimism was strongest among firms that had annual sales of more than $2 million — almost three-quarters of them expected continuing growth.

Expectations become a self-fulfilling prophecy partly because the ones who expect to grow take more trouble to prepare themselves adequately for the task. The people with the best prospects for growth at the time the survey was conducted include a disproportionate share of those who prepared business and marketing plans at start-up. More than half the entrepreneurs expecting fast growth in 1988 had a business plan at start-up and 41% had a marketing plan. Only a third of the people expecting a declining or stagnant employment prepared business plans at start-up and less than a quarter prepared marketing plans.

Even the people who started out unambitious came to appreciate the value of formal planning, however. For the sample as a whole, exactly half now have a business plan, compared to 39% at start-up; 42% have a marketing plan, compared to 27% at start-up.

One thing that did not appear to be regarded as essential was previous experience in a comparable job. Almost a third of the start-up entrepreneurs in the federal study[9] had no previous experience in the field in which they were starting their new venture. And of the ones who did have some relevant experience, only two-thirds could claim experience that was specifically related to their new venture. That means one-half of the people starting new ventures had no previous experience or only general experience in their new field.

This degree of inexperience is significantly greater than it was in an earlier study of start-ups in Ontario[10], which found that only 15% had no previous experience. Furthermore, 60% had had previous experience in running a business. It appears that start-ups after 1984 may be less conservative than their predecessors in picking their new line of business. Two-thirds of the people in the earlier study were starting their first ever new business, compared to 58% in the later

[9] Ibid. *Study of Business Start-ups in Canada*

[10] *Newly-formed Small Businesses in Ontario, 1982-84*, by The Creative Research Group, for the Ministry of Industry, Trade & Technology, 1985

study. In both studies, however, about a quarter of the respondents had more than one active business at the time of the survey.

The one element of preparation that seemed to be consistent for all levels of expectations for future growth was the degree to which entrepreneurs seek out a financial institution to discuss financing. At start-up, 56% talked to a financial institution about financing. However, only 46% obtained a loan and a mere 22% obtained equity financing. Only 13% of unincorporated businesses obtained equity financing, compared to 27% for incorporated ones.

Corporate Status

Several studies have concluded that about one-third of new businesses are incorporated and two-thirds unincorporated. This relationship can vary, however, depending on the start-up rate. About a third of the unincorporated start-ups soon begin to turn enough of a profit that they have to incorporate within three years[11] of their start-up, so a surge of start-ups quickly leads to a higher proportion of new incorporations, many of which are no longer start-ups. Many of the remaining unincorporated firms never change status. Often their businesses are vehicles for "life-style" entrepreneurs who want to work on their own and don't intend to build a big business. Partnerships are all unincorporated, of course, and they can become quite large businesses. In general, however, the corporate status chosen by the owners has a major effect on what happens subsequently to a business.

Table 2.3 shows that the incorporated firms are more ambitious, invest more, plan more, investigate their business start-up more, have more experience, and are more meticulous in their paperwork. Inevitably, their results are better. Their sales are higher, they have more employees and they expect more growth.

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[11] Ibid. *Newly-formed Small Businesses in Ontario, 1982-84*

Table 2.3[12]

The Psychology of Incorporation

Comparison of the status and attitudes of incorporated and unincorporated businesses, at start-up and in 1988, Ontario

Status or attitude	Incorporated	Unincorporated
At start-up		
Average total investment	$116,000	$69,000
Average personal investment	$34,100	$24,500
	%	%
Personal/total investment	29	36
Percent investing less than $25,000	55	73
Talked to financial institutions	63	43
Obtained a loan	50	37
Obtained equity financing	27	13
Developed a financial statement	93	73
Had a formal business plan	42	32
Had a formal marketing plan	31	19
Expected to become a big firm	59	36
Worked out of home	25	37
Aged less than 40	48	61
Had relevant previous experience	37	22
At time of survey		
Average sales	$870,000	$360,000
	%	%
Expecting to hire more people	66	47
Prepared to borrow to expand	65	46
Percent with fewer than 5 employees	36	65

Generally, people who incorporate their new businesses are more likely to stay the course than those who do not incorporate. The federal study of start-ups[13] found that incorporated businesses accounted for 34% of all the firms in the study, but only 17% of those no longer operating in 1988 and 17% of those not yet operating. Sole proprietorships, by contrast, accounted for 44% of the firms in the study, but 63%

[12] Ibid. *Newly-formed Small Businesses in Ontario, 1982-87*
[13] Ibid. *Study of Business Start-ups in Canada*

of the firms not yet operating and 56% of those no longer operating. The balance of the firms (18%) were partnerships.

Home-based Business: Room to Grow?

People starting retail stores or manufacturing concerns have little choice but to rent or buy space for their new businesses. But in the service industries, which attract more new businesses than any other sector, it is a viable option to start the business in a garage or a room in the owner's home. It is also now quite common for people to start businesses on a part-time basis in the hope they will be able to build them up to the point where they can quit their jobs and run them full-time. These people usually run their businesses out of their homes, too.

According to the federal study of start-ups, 42% of the businesses that were registered or incorporated in 1987 were operated on a part-time basis by the owner. These people accounted, not surprisingly, for the lion's share (85%) of businesses that were not yet operating in the fall of 1988. Nonetheless, three-quarters of them were operating, so it is a popular way of starting a genuine business.

The federal study found that almost half of the start-ups in Canada are run from the home, while 40% rent their space and 10% buy it. The study on 1982-87 new businesses in Ontario, by contrast, found that only 29% worked out of their homes in Ontario at start-up, but this is certainly an understatement because this study had a disproportionately heavy weighting of larger and incorporated firms. The incorporated firms were less likely to be started in the owners' homes (25% compared to 37% of unincorporated firms), as were larger firms (13% of firms with more than 20 employees started in the home, compared to 38% of firms with fewer than five employees)[14].

The Ontario study nonetheless illustrates some important trends. Many of the firms that are started in basements and garages grow enough to move into rented space. By the time the survey was conducted in 1988, two-thirds of the

[14]The statistics quoted from the study on newly formed businesses in Ontario between 1982 and 1987 are adjusted to remove non-respondents.

businesses were renting space, compared to a half at start-up. This development took place principally in unincorporated firms, 38% of which rented space at start-up, but 57% of which were using rented space when the survey was conducted.

Investment at Start-up

The average investment in new firms registered or incorporated in 1987 was $58,300, according to the federal study of start-ups[15]. This is more than double the average investment of newly-formed firms in Ontario in 1982-84[16], which invested an average of $24,000. It is likely that the Ontario study is closer to the average for all start-ups, because the federal study is under-represented in service industries, which require much smaller investments at start-up. Only 39% of the firms in the federal study were in the service industries, compared to 56% in the Ontario study. (Two-thirds of the increase in business owners between 1981-86 were in services — see chapter 3). The average investment of firms in the 1982-87 study of new businesses in Ontario is much more again, at $103,000, but this reflects that study's heavy weighting of bigger firms and incorporated start-ups, both of which have significantly higher investments.

The average investment in start-ups can vary enormously, depending on the weighting a study gives to firms that start with a bang. In a previous study of 84 fast-growth firms[17], the average investment at start-up was $2.4 million. Even if the largest 18 of those firms are excluded, the average investment of the rest was still $350,000. The firms that start with a bang invest large sums of money that distort the averages if they are not given accurate weightings. In the federal study, for example, 82% of the firms invested less than $75,000, averaging $17,200, but their total investment accounted for only 24% of the total for all firms. As Chart 2.4 shows, 2% of this study's firms, which invested more than $500,000 each, accounted for 26% of the total investment.

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[15] Ibid. *Study of Business Start-ups in Canada*

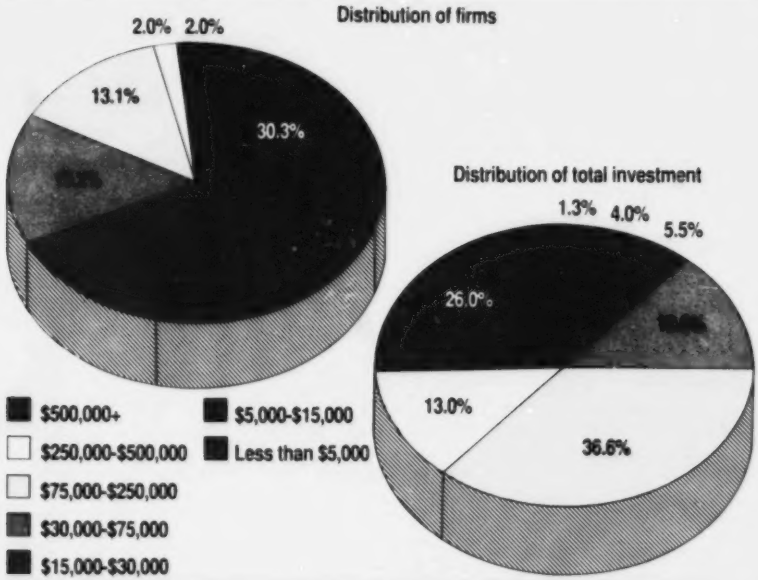
[16] Ibid. *Newly formed Small Businesses in Ontario, 1982-84*

[17] *Ontario's Successful Businesses*, by Decision Marketing Research Limited, 1987. See The State of Small Business, 1987

Chart 2.4[18]

Start-up Investment

Percentage distribution, by size of start-up investment, of the number of new firms and of their total investment



The funds for these investments come from a wide variety of sources. Several recent studies have shown that the relative importance of the sources is fairly consistent, although the overall level of funding varies from study to study. As Table 2.4 shows, the main difference lies in the fast-growth firms, which invested an average of $2.4 million at start-up and therefore needed to raise a lot of money from financial institutions, other investors and related companies. In the federal study, the start-ups used an average of 1.7 sources of financing, apart from their own funds.

[18]Ibid. *Study of Business Start-ups in Canada*

Table 2.4
Sources of Funds for Start-ups

Percentage of firms in each of four recent studies that used funds from the sources shown

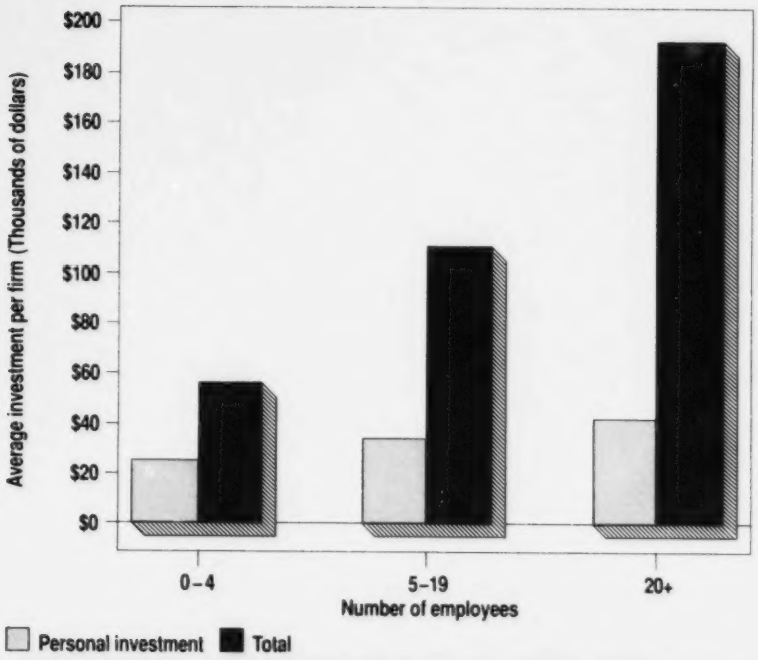
Source of funds	Start-up firms in four different studies, showing percentage that used each source of funds			
	Federal start-ups Canada 1987	New Businesses in Ontario 1982-87	Fast-growth Ontario 1974-84	Cross-section Ontario 1982-84
	%	%	%	%
Personal	82	n/a	54	100
Banks/Financial institutions	35	36	66	27
Family	18	9	17	14
Other investors	7	15	25	16
Related companies	7	n/a	14	-
Friends	5	5	6	8
Government	5	n/a	3	-

Note: The four studies are, in order, Study of Business Start-ups in Canada, Newly-formed Small Businesses in Ontario, 1982-87, Ontario's Successful Businesses and Newly-formed Small Businesses in Ontario, 1982-84.

The study on new businesses in Ontario during 1982-87 analyzed the personal investments made in different sizes of firms. The variation in the dollar investment by the owners varies surprisingly, so the percentage of the investment funded by personal financial resources declines with the size of the firm, as Chart 2.5 shows. The personal funds of the owners of the bigger firms accounted for 22% of the total investment, compared to 43% for the smallest.

It would appear that people who expect their companies to grow rapidly rely less on their own financial resources. The owners who expect their firms to decline or remain stable provided 43% of their initial investment from their own resources, while those who expect to grow provided only 28%.

Chart 2.5
Whose Money Was on the Line



Entrepreneurs are also careful about retaining control over the equity in their firms. Three-quarters of the people in the study of new businesses during 1982-87 expected to maintain or increase their ownership of their firms. If they were to decide to expand, almost 60% of them would be prepared to borrow money to do it. The ones expecting to grow were more prepared to borrow (69%) than those who did not expect to grow (51%).

If they were given an extra $100,000 to invest, the most popular choice of entrepreneurs in the 1982-87 new businesses study would be to buy or lease more equipment, followed by renting or buying more space. The next three most popular choices were, equally, to hire more staff, train them and to pay down loans. The ones who expected to grow fast went first for more space, second for hiring more people and third for more training. The need for more equipment is concentrated in the smaller and unincorporated companies.

The Motivations of Entrepreneurs

There have been countless studies on the motivations of entrepreneurs over the years and, although there are some elements of a consensus, it is still a controversial subject. Albert Shapero found in the U.S.[19] that people who start businesses are often corporate refugees. Russell Knight confirmed the phenomenon in Canada[20], with an interesting expansion on the nature of the refugees. These refugees are involuntarily pushed out of previously comfortable niches and forced to swim on their own, just as much as they are impelled by positive forces inside themselves. David McClelland[21] found that entrepreneurs are motivated principally by the need to achieve. Many others have observed, among other motivations, the desire of new entrepreneurs to be their own boss, to make good money and to enjoy the challenge of pitting themselves against more powerful opponents.

Recent studies in Ontario and Canada have shown that the major entrepreneurial motivations have been consistent in the recent past. There have, however, been some minor shifts in emphasis, as Table 2.5 shows, the most notable being the increasing desire to make money.

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[19] *The Displaced, Uncomfortable Entrepreneur*, by Albert Shapero, *Psychology Today*, 1975

[20] *Entrepreneurship in Canada*, by Russell Knight, *Journal of Small Business in Canada*, 1983

[21] *The Achieving Society*, by David McClelland, D. van Nostrand, 1961

Table 2.5
Why People Start Businesses

Motivations of people who start their own firms, according to four recent studies in Ontario and Canada

	Rankings within motivation studies**			
Motivation	**Federal start-ups Canada 1987**	**New businesses in Ontario 1982-87**	**Cross-section Ontario 1982-84**	**Fast growth Ontario 1974-84**
Sense of accomplishment	1	n/a	n/a	=6*
To make money	2	=1	2	3
To be my own boss	3	=1	1	1
To adapt my own approach to work#	4	4	4	=6
To use my skills and training#	5	5	5	2
To develop an idea or product	6	n/a	n/a	9*
Saw a need	n/a	3	3	4
To make a living	n/a	6	6	=6
Opportunity/challenge	n/a	n/a	n/a	5*
Average year of start-up	**1987**	**1984**	**1983**	**1970s**

\# "To use my skills and training" was taken as equivalent to "had previous relevant experience". Also, "To adapt my own approach to work" was taken as equivalent to "always wanted to run a business".

* Respondents mentioned these motivations without prompting. All other responses were to questions that specifically mentioned a motivation.

** The four studies are, in order, Study of Business Start-ups in Canada, 1987, Newly-formed Small Businesses in Ontario, 1982-87, Newly-formed Small Businesses in Ontario, 1982-84, and Ontario's Successful Businesses.

"To be my own boss" used to be the biggest motivator, but it has dropped to second place after "to make money" in the course of the 1980s. If "sense of accomplishment" is ignored for the moment (it was suggested only in the most recent questionnaire, so it's impossible to determine any trend with it from these studies), the consensus of these studies is that the current most popular motivations are:

1. To make money;
2. To be my own boss;
3. Saw a need for my product or service;
4. Always wanted to run a business, to do it my way;
5. Wanted to use my experience and skills; and
6. Needed to make a living, economic necessity.

The rankings are different for some of the sub-groups of the entrepreneurs interviewed for the above studies, of course. People who expect to grow in the study of new businesses in Ontario during 1982-87, for example, rank "saw a need" as the top motivation, but those who don't expect to grow mentioned "to be my own boss" twice as frequently as "saw a need".

It's not certain, either, that the top two motivators have indeed switched places. It's possible that making money has always been the top priority and suffered only a temporary relapse during the recession years. In the 1982-87 study, this motivation ranked first before 1982 and after 1984, but only third in 1982-84. This might reflect the reality that during the recession years, making much money must have seemed a rather distant prospect.

The debate about motivations extends beyond these studies, however. There are other motivations that these studies did not explore but which are important to entrepreneurs, notably the need for a sense of achievement and enjoyment. Most of the above studies have been hampered by questionnaires that offered a limited number of options to the respondents, who seldom took the initiative of suggesting other motivations important to them.

A major study conducted in 1987 explored a wider range of motivations and found quite different results from the four studies discussed above. The Canadian portion of an international study on "Why people decide to start a new business: The effect of cultural values on entrepreneurs" comes to strikingly different conclusions, as Table 2.6 shows.

The primacy of the need to achieve is clear in this study. This is an important motivation for entrepreneurs, who could not overcome the many obstacles they encounter if they did not have this strong urge to accomplish their goals. Interestingly, the need for recognition for these achievements is not as important, ranking only 21st.

The second, third and fourth motivations in the four studies discussed previously rank just as high in the cross-cultural study. "To be my own boss", "Saw a need" (or "Seized an opportunity") and "adopting my own approach" (or "do it my way") ranked second, fifth and third respectively in the 1987 study.

Table 2.6
A Cultural Study of Motivation in Canada

	Motivation	Percentage claiming this as a motivation
		%
1.	Sense of accomplishment	76
2.	To be my own boss	75
3.	Freedom to adapt my own approach to work	66
4.	To have variety and adventure in my work	64
5.	To seize an opportunity	64
6.	To start and grow a new business	63
7.	The opportunity to lead rather than be led	60
8.	To make a direct contribution to the company's success	59
9.	To be able to develop an idea for a product or service	58
10.	To keep learning	54
11.	To better use my training or skills	51
12.	To control my time	50
13.	It was a time in my life when it made sense	50
14.	To be able to work with people I choose	43
15.	To be innovative, in the forefront of technology	42
16.	To have fun	42
17.	Desire to have high earnings	42
18.	To have greater flexibility for myself and family	41
19.	To be able to work with people I like	37
20.	To give myself and my family security	35
21.	To achieve something and get recognition for it	34
22.	To be respected by friends	32
23.	Frustrated in previous job	26
24.	To be able to work where I and my family want	25
25.	To achieve a high position for myself in society	23
26.	Not to work for an unreasonable boss	16
27.	To contribute to the welfare of my relatives	16
28.	To have access to fringe benefits	15
29.	Needed more money to survive	15
30.	To become part of a network of entrepreneurs	14
31.	To contribute to the welfare of my community	12
32.	To increase the prestige of my family	8
33.	To follow the example of a person I admire	5
34.	To have more influence in my community	5
35.	It was the only thing I could do	5
36.	To escape unsafe working conditions	5
37.	I wanted to continue a family tradition	3
38.	To contribute to the welfare of my ethnic group	1

Beyond these three, however, the results of the 1987 study give a quite different picture. Five concepts are introduced in the 1987 study that were not in the earlier ones:

- Enjoyment is most apparent in two of the replies — "to have variety and adventure in my work" (#4) and "to have fun" (#16). It's also a big part of "being innovative, at the forefront" (#15), as this involves self-fulfillment;
- Challenge is suggested by variety and adventure (#4);
- Winning in business is the core element of "starting and growing a new business", "the opportunity to lead rather than be led" and "to be able to make a direct contribution to the company's success", which ranked 6th, 7th and 8th;
- The need to develop an idea for a product or service (#9) is a critical motivation for many, many entrepreneurs, particularly technologically oriented people; and
- Affiliation needs are inherent in "to work with the people I choose" and "to work with people I like", which ranked 14th and 19th. These are not common in entrepreneurs, but are still a motivational factor for an important minority.

Surprisingly, the need to make good money ranks only 17th, far below the first place in the four studies discussed earlier. Money is a difficult subject to interpret, however, because so many people find it as hard to deal with their own wealth as to deal with other people's attitudes toward their wealth.

In another recent study[22], entrepreneurs' attitudes toward money were found to be very complex. The conventional wisdom, consistent with the 1987 cross-cultural study, is that entrepreneurs are not driven by the need for money per se, but rather that they value it as a means of keeping score of how well they are doing. An equally more common attitude among the entrepreneurs in this study was that they unabashedly liked it because of what they could buy with it.

These entrepreneurs were all successful entrepreneurs and included people who have been in business for a wide

[22] *The Entrepreneurial Edge*, by Donald Rumball, Key Porter, 1989

range of years, from start-ups to 45 years. The median period of ownership was 10 years and a quarter of them had owned their firms for less than five years. Their motivations therefore inevitably differ from those of people who are embarking on a start-up, but there are striking similarities, as Table 2.7 shows.

Almost a third (30%) of the entrepreneurs in this study said money was important to them and nearly as many (27%) said emphatically it wasn't. However, almost a third of those who said money was not important acknowledged that it had been important before they became successful. If these people are counted as being motivated by money, even if only at the start-up stage, then money comes very close to the top of the rankings of motivators, at 41%.

Table 2.7[23]

Motivations of Successful Entrepreneurs

	Motivation	Percentage who said this motivates them
		%
1.	Having fun	44
2.	Building a lasting organization	34
3.	Money	33
4.	Winning in business	29
5.	Recognition	26
6.	Sense of accomplishment	23
7.	Seeing people fulfill their potential	21
8.	The challenge	14
9.	Improving the world in some way	12
10.	Problem solving	10
11.	Producing a top-quality product	10
12.	Meeting interesting people	9
13.	Independence	8
14.	Power	8
15.	Proving a point to doubters	7
16.	Creativity	6
17.	Helping the family	4

[23] Ibid. *The Entrepreneurial Edge*

The most popular motivation for entrepreneurs in the cross-cultural study conducted in 1987 was the need for a sense of accomplishment (76%). In the study of successful entrepreneurs, several sub-themes of accomplishment were identified — building a lasting organization, winning in business, improving the world in some way in addition to a sense of accomplishment. If these motivations are pooled, then 74% of the entrepreneurs gave this as a motivation.

After a sense of accomplishment, the studies diverge sharply. Six of the next seven in the start-up study reflect the forces that dominate when entrepreneurs are starting their own businesses. Their major need at this stage in a business is an outlet to express themselves outside the constraints of being an employee. These are: the need to be their own boss (75%), which is seldom something that motivates anyone who already has a successful business; setting their own approach to work (66%); variety and adventure (64%); starting and growing a new business (63%); the opportunity to lead rather than being led (60%); and making a direct contribution to a company's success (59%). As was mentioned earlier, there is a strong element of winning in business in some of these, but it is directed at a different challenge from that perceived by entrepreneurs who have already succeeded.

Only much lower in the rankings of start-ups do motivations comparable to those of established entrepreneurs start to appear: seizing an opportunity (64%) was the highest at fifth; high earnings (42%) was 17th; achievement and recognition (34%) was 21st; and having fun (42%) was 16th.

[The total percentages of people mentioning each motivation are higher in the cross-cultural study than in *The Entrepreneurial Edge*, mainly because it was performed by sending out a long and detailed questionnaire, which prompted responses to specific questions relating to hypothetical motivations. In the study of successful entrepreneurs, the interviews were open-ended. The entrepreneurs were not asked to respond to specific hypotheses, but were asked to articulate, without prompting, what drives them. The replies of each one almost certainly do not cover all the drives that motivate that individual, but together, they appear to cover all the major motivations, in roughly the right proportions.]

Women

The percentage of start-ups run by women appears to be lower in most studies than it really is in the whole economy. The census of Canada showed that the growth in business owners between 1981 and 1986 was dominated by women, who accounted for 56% of the increase in Canada and 42% in Ontario (see next chapter). Yet, in all the studies in this chapter, women never accounted for more than 30%, and often for a great deal less.

Whatever the sociological reasons for this, it would appear that women are generally adopting a lower profile and easing into the world of entrepreneurship more cautiously than men. It's likely that many of the firms run by women will mature into more aggressive businesses in the next few years. For the moment, however, women are more likely than men to have no employees and run an unincorporated firm, often out of their homes. As Table 2.8 shows, their attitudes and ambitions are quite different.

Table 2.8[24]

Comparison of Start-ups by Men and Women

Comparison of men's and women's business statistics and attitudes		
Number of employees	**Women**	**Men**
	%	%
Less than 5 employees	53	43
More than 20 employees	11	23
Annual sales		
Less than $100,000	23	13
More than $1 million	9	27
Growth expectations		
No change	36	27
Slow growth	43	48
Fast growth	7	13

[24] Ibid. *Newly-formed Small Businesses in Ontario, 1982-87*

Why Firms Fail

In the federal study on start-ups, 5% of the firms that had registered in 1987 had failed by the fall of 1988, when the interviews were conducted. The reasons they gave for their failure are shown in Table 2.9.

Table 2.9[25]

Why New Firms Fail

The reasons given for the discontinuance of operations by firms that registered in 1987

Reason for failure	Percent responding
	%
Couldn't make enough money at it	30
Difficult to market the product	25
Problems with financial backing	22
It wasn't what I wanted	15
Took a full-time job; no time	8
Personal reasons (accident, illness, moved)	6
Production problems	6
Problems with associates, distributors	6
Problems with manpower	5
Market too small	5
Problems with government	3
Too much competition	2

These firms said they needed assistance most in obtaining more and better information (see chapter 5). Two-thirds of them cited this need. Less vital needs were grants (44%), counselling (42%), loan guarantees (33%), salary subsidies (26%) and training programmes (25%).

[25] Ibid. *Study of Business Start-ups in Canada*

Business Climate for Start-ups in Ontario

In its annual poll of Ontario residents, the government asks about people's perceptions of the climate for starting a business in Ontario, compared to other provinces. The results have consistently been overwhelmingly positive, as Table 2.10 shows. The level of preference declined slightly in 1989 after two exceptionally strong years. The preference levels were particularly high in Metro Toronto and Central Eastern Ontario.

Table 2.10[26]

The Climate for Start-ups in Ontario

Assessment of climate	1986	1987	1988	1989
	%	%	%	%
Very good	39	53	52	40
Somewhat good	44	36	36	40
Good	**83**	**89**	**88**	**80**
Somewhat poor	8	4	6	9
Very poor	2	3	2	4
Poor	**10**	**7**	**8**	**13**
No opinion	7	4	4	7

The same poll revealed a strong perception, by two-thirds of the respondents, that the policies of the government favour business rather than labour. This perception was particularly strong among the unemployed, those aged 18 to 24, those with community-college educations and members of unions.

[26] *Focus Ontario*, a poll performed for the Ontario government by Environics Research Group, 1989

CHAPTER 3
THE CHANGING PROFILE OF SELF-EMPLOYED ONTARIANS

In the first half of the 1980s, the steady flow toward self-employment raised the number of people in Ontario who are their own bosses to almost 408,000 in 1986. That's 14% more than the total of 358,000 in 1981[1], and a significantly faster growth rate than the 10% by which the number of employees in the province increased during the same period. Self-employed people accounted for 8.3% of the workforce in 1986, up from 8.0% in 1981.

Ontario is leading the rest of Canada in the increase of self-employed people. During 1981-86, the number of self-employed people in Canada grew 10% to 1,209,000, a somewhat slower growth rate than Ontario's 14%. However, Ontario is still lagging the rest of the country in the proportion of its labour force that is self-employed. By 1986, although almost 38% of the Canadian labour force was in Ontario, only 34% of the self-employed were in Ontario.

There is, however, an important distinction within the ranks of the self-employed. Generally speaking, people who incorporate their firms are more committed to their businesses and more serious about growth than those who are unincorporated. It's true that many unincorporated businesses (which include partnerships, for example) are full-fledged and active firms, but a significant proportion of them are self-employed only on a part-time basis or they are "lifestyle" entrepreneurs. These people are self-employed because they prefer to be their own bosses and are often not oriented toward growth as long as their earnings are adequate. They might be compared to independent craftsmen who sell their own time and expertise, but who should not be confused with entrepreneurs, who are focussed on employing people and growing their businesses.

There is an overlap between the two. It is common for new

[1] Small Business and Special Surveys Division, Statistics Canada, based on the Census of the Population of Canada, 1981 and 1986. Unless otherwise stated, all statistics in this chapter are from this same source.

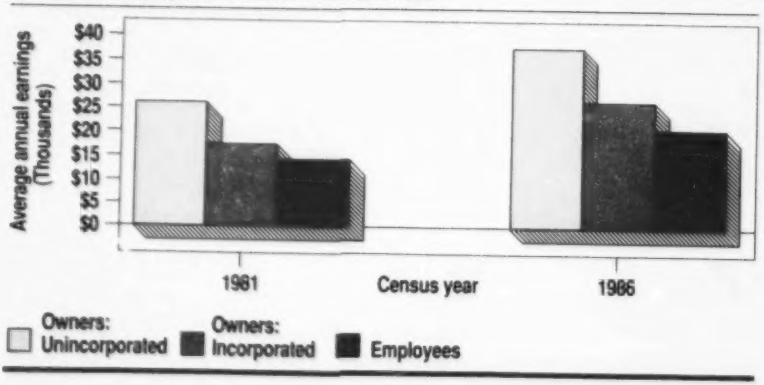
entrepreneurs to start out as unincorporated sole proprietors while they find their feet. Once they establish themselves and start earning significant profits, they usually incorporate, if only for tax reasons. Because of this and the factors mentioned earlier, the earnings generated by incorporated businesses are invariably higher, by a wide margin, than those generated by unincorporated firms.

It is therefore noteworthy — and perhaps a sign of the maturing of the trend toward entrepreneurship — that the increase in the number of owners of incorporated businesses in Ontario during 1981-86 was 27%, compared to an increase of only 9% in the number of self-employed people in unincorporated firms. The percentage of the self-employed who have incorporated their businesses rose to 32% in 1986 from 29% in 1981. This imparts greater strength and earning power to the growth in the total number of self-employed Ontarians than is implied by the 14% average growth in self-employed people.

As Chart 3.1 shows, the average reported earnings of owners of incorporated businesses are about three-quarters as much again above those of employees, while the unincorporated self-employed earn only a quarter more than employees.

Chart 3.1
It Pays to Be Self-Employed

Comparison of the average earnings of employees and the self-employed in Ontario in 1981 and 1986



The wage gap between employees and self-employed people as a whole increased during 1981-86, when the average earnings of the self-employed grew by 47%, compared to 43% for employees. This raised their average earnings to $30,496 in 1986, or 43% more than the average for all employees of $21,317.

However, the gap in earnings between the two classes of self-employed people is shrinking. Owners who incorporated their firms increased their earnings by 41% between 1981 and 1986, compared to 48% by the unincorporated self-employed. The earnings that owners drew from incorporated firms exceeded the earnings of the unincorporated self-employed by 38% in 1986, compared to 45% in 1981.

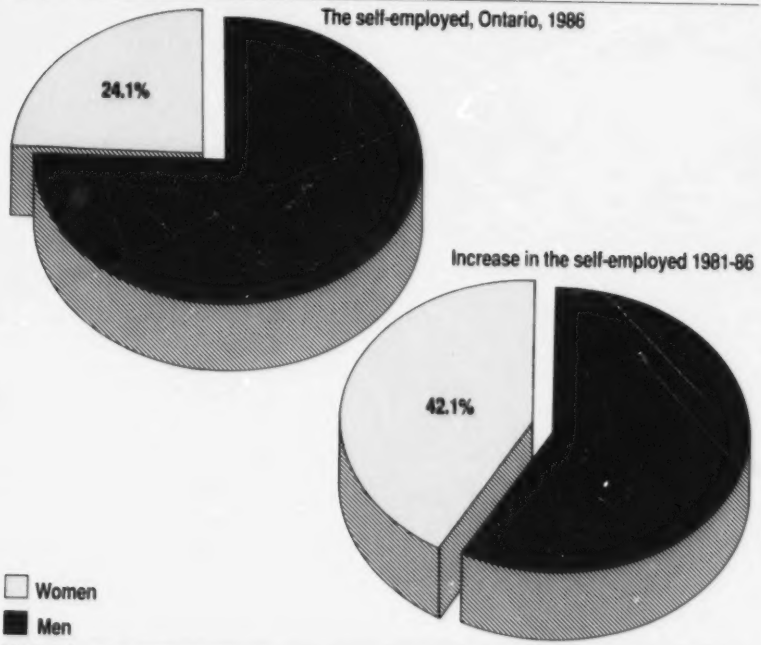
Women

Women have played a vital part in boosting the ranks of the self-employed, as is shown by Chart 3.2. During the period 1981-86, women accounted for 42% of the increase in the number of self-employed Ontarians. This is somewhat lower than the figure for all of Canada, where women accounted for 49% of the increase in self-employment, but this reflects a catch-up by women in other provinces rather than slow growth in Ontario. In 1981, 19% of the self-employed in Canada were women, compared to 22% in Ontario. By 1986, women accounted for 24% of the self-employed in Ontario and 22% in Canada.

This has led, naturally enough, to the widespread assumption that women are leading the trend toward entrepreneurship, but this is not so — at least, not yet. Men and women are both turning to self-employment at close to their historical rates, which were 4.10% of the workforce for women and 10.85% for men in 1981. The major reason for the rapid increase in women business owners is that women are entering the workforce in far greater numbers, accounting for two-thirds of the growth during 1981-86. For both men and women, the growth rate of the self-employed during 1981-86 was about two and a half times the growth rate of the workforce as a whole. The result was that the proportion of the workforce that is self-employed rose by an almost identical amount during the period to 4.53% for women and 11.25% for men.

Chart 3.2
The Growing Role of Women

Women's share of self-employed Ontarians in 1986 and their corresponding share of the net gain in self-employment during 1981-86

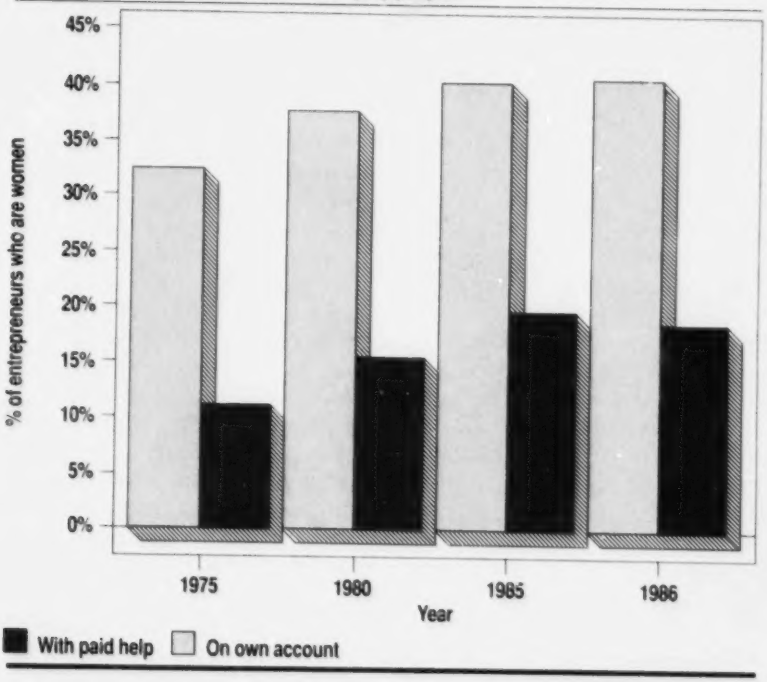


Moreover, the growth of women entrepreneurs is still weighted toward those who work for their own account only, without employing anyone else. As Chart 3.3 shows, although women represent almost a quarter of all entrepreneurs, they represent less than a fifth of those who employ other people. By contrast, about 40% of the entrepreneurs who work for their own account are women. In the 11 years to 1986, their share grew in both categories, however, with the faster proportional growth among those with paid help.

Chart 3.3[2]

The Increase in Women Entrepreneurs

The percentage of all entrepreneurs in Ontario who are women, for those who operate on their own account and for those who employ people.



The preponderance of women in the net growth of the workforce resulted in a 27% growth in the number of self-employed women during 1981-86, as Table 3.1 shows. This is considerably faster than the 10% growth rate recorded by men. In Canada as a whole, self-employed women increased at the same rate, 27%, while self-employed men increased somewhat slower, at 6.5%.

[2]Enterprising Canadians: The self-employed in Canada, October, 1988. Labour and Household Surveys and Analysis Division, Statistics Canada

Table 3.1

Growth in Self-Employment Among Men and Women

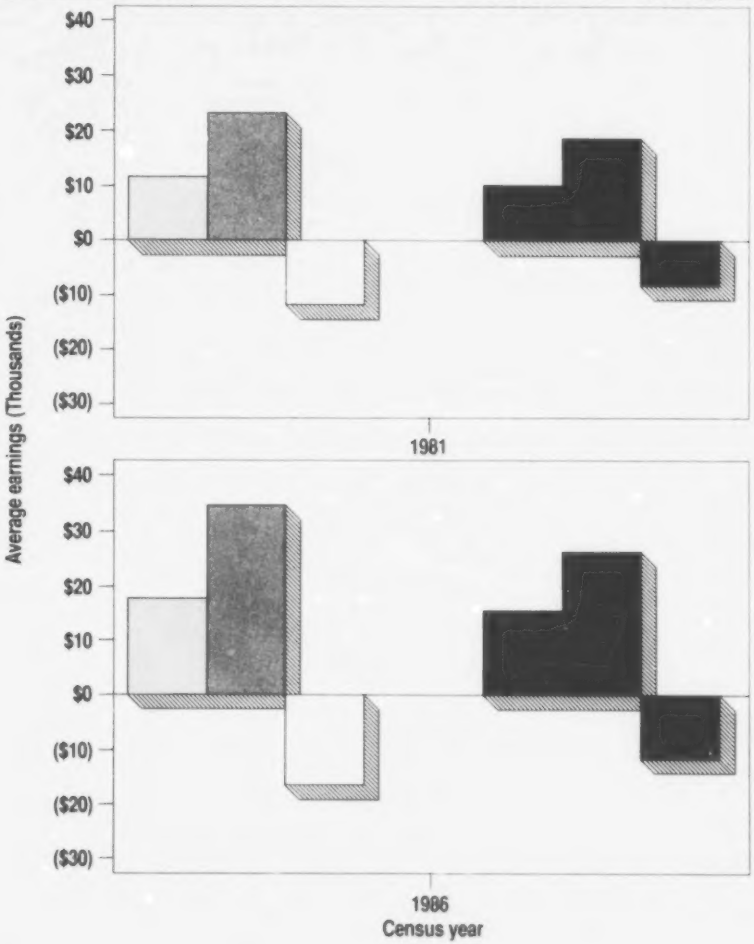
Growth rates in Ontario for self-employed, employees and total labour force, by gender, 1981-86

Employment Status	Number 1981	Number 1986	Growth rate 1981-86
			%
WOMEN			
Self-employed	77,075	98,190	27.4
Employees	1,801,225	2,071,600	15.0
Total	1,878,300	2,169,785	15.5
MEN			
Self-employed	280,585	309,605	10.3
Employees	2,305,160	2,442,845	6.0
Total	2,585,745	2,752,455	6.4

The wage gap between men's and women's earnings is actually bigger for the self-employed than it is for employees, as Chart 3.4 shows. The earnings of self-employed women were 51.5% of those of self-employed men in 1986, which is an improvement over 1981, when their earnings were only 49.1% of those of men. However, employees made even better progress. Women employees' earnings as a percentage of men's rose 3.5 percentage points during the same period to 57.7% in 1986. This was not because self-employed women failed to make adequate strides, however. On the contrary, self-employed women increased their earnings by 56% during the period 1981-86, a better performance than female employees who increased their earnings by 51%, and a better performance than all the men. However, self-employed men enjoyed much stronger earnings growth than men employees (49% compared to 42%), so the wage gap shrank less among the self-employed than among the employed.

Chart 3.4
The Wage Gap

The wage gap between men and women for self-employed people and employees, Ontario, 1981 and 1986



The critical difference between self-employed men and women is that women have a far larger proportion of unincorporated businesses than men. In 1986, almost three-quarters of the women-owned businesses were unincorporated, compared to two-thirds of the men's. Since unincorporated firms generate much lower earnings for their owners than incorporated firms, this has meant self-employed women don't benefit from self-employment as much as men. On average, self-employed women earned 17% more than female employees in 1986, which pales in comparison with self-employed men, who earned 31% more than male employees.

As Table 3.2 shows, unincorporated businesses delivered dismal earnings to their women owners compared to men owners. This is probably because of the way women grow their businesses. Chapter 2 showed that women are more likely than men to start businesses from their homes, frequently on a part-time basis, and to build their businesses more cautiously. Once their earnings start rising, they expand and hire employees just like men, but their gestation is longer. More than a third of self-employed women employ no-one apart from the principal[3]. Because the businesses owned by women are much younger than those owned by men, they have a higher proportion than men of fledgling businesses with low earnings. The earnings from unincorporated firms owned by women were only 63% of those from incorporated businesses. The comparable proportion for men was 77%. As a result, women with unincorporated businesses earned less than half (49%) as much as their male counterparts in 1986. For incorporated businesses, the comparable figure was 60%.

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[3] Canadian Advisory Council on the Status of Women, Background paper. Women Entrepreneurs; *Building a Stronger Canadian Economy*. Dina Lavoie, 1988

Table 3.2

Earnings from Self-Employment for Men and Women

Earnings in Ontario by employment status for men and women in 1981 and 1986 and the increase during the period

Employment Status	Average earnings 1981	1986	Increase 1981-86
			%
WOMEN			
Incorporated	$16,175	$24,290	50
Unincorporated	9,856	15,315	55
All self-employed	11,394	17,765	56
Employees	10,087	15,237	51
Total	10,142	15,354	51
MEN			
Incorporated	28,781	40,810	42
Unincorporated	20,785	31,284	51
All self-employed	23,186	34,497	49
Employees	18,598	26,389	42
Total	19,103	27,313	43

Education

The self-employed are slightly better educated than employees. In 1986, 56% of them had some post-secondary education, compared to 52% of employees. Both had an almost identical proportion of people who did not complete secondary school. Education levels are, as might be expected, improving rapidly. As Table 3.3 shows, the net influx into self-employment has a significantly better education than the average for all self-employed Ontarians.

Table 3.3

The Improving Education of the Self-Employed

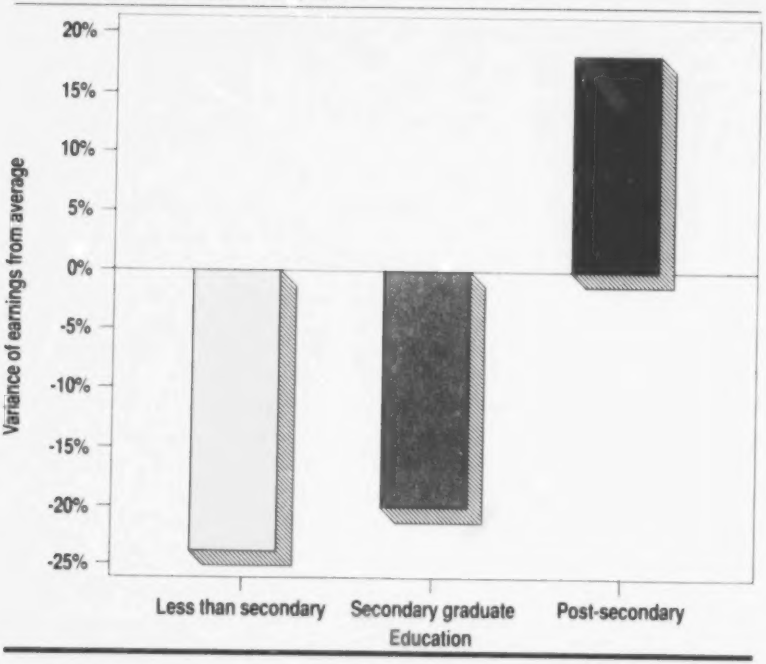
Educational qualifications of all self-employed Ontarians in 1986 and of the net increase during 1981-86

	Number	Change	% distribution of Total in	Change in
Level of education	1986	1981-86	1986	1981-86
Less than secondary school	138,380	-1,580	34	-3
Secondary school diploma	40,585	+6,830	10	14
Post secondary school	228,830	+44,875	56	89
Total	407,795	+50,130	100	100

The significance of educational levels lies in their corresponding income levels. As Chart 3.5 shows, business owners with a post-secondary education earn considerably more than those with lesser education.

Chart 3.5
The Power of Education

Self-employed earnings by level of education, expressed as a percentage of the average for all levels of education, Ontario, 1986



An important element in this is the variability of earnings depending on corporate status. The range between the earnings of people with the lowest and highest education levels is 42 percentage points (-24% to +18%) in Chart 3.5, which deals with all self-employed people. This breaks down into a range for unincorporated businesses of 56 percentage points, while that for incorporated firms is 21. Once a

business is incorporated, education seems to matter less, and, presumably, business skills matter more. Since unincorporated businesses are most often partnerships or sole proprietorships, where the owners are essentially selling their personal skills, this is not surprising.

Self-employed women are in general better educated than their male counterparts: 58% had some post-secondary education in 1986, compared to 55% of the men. Equally important, only 29% of the women did not graduate from secondary school, compared to 35% of the male owners. This is changing as more women who did not graduate from secondary school start their own businesses. Almost 9% of the new female business owners during 1981-86 did not have a secondary school certificate, while the number of self-employed men with comparable education actually decreased by 12% over the same period. The men have not caught up with the women yet, however.

Self-employed women are also better educated than women employees, although the employees are gaining ground. During 1981-86, only 1% of the increase in female employees did not have a secondary school certificate, compared to 9% for those choosing self-employment. Also, 86% of new employees had some post-secondary school education, compared to 79% of the women who became self-employed.

The impact of higher education on earnings is quite different for men and women. Compared to the earnings of employees, self-employed men benefit significantly from higher education, while self-employed women benefit more if they have little education. Self-employed women with less than secondary education earn 24% more than women employees with the same education, while those with a secondary school certificate or better earn only 11% more than employees. Self-employed men, on the other hand, earn 36% more than employees if they have some post-secondary education, while those with less than a secondary school diploma earn only 18% more than employees with the same education.

This causes the wage gap for women to be more severe if they are better educated. Self-employed women with less than secondary education earn almost 60% as much as their

male counterparts, while those with some post-secondary education earn only 48% of what men with the same education earn.

Youth

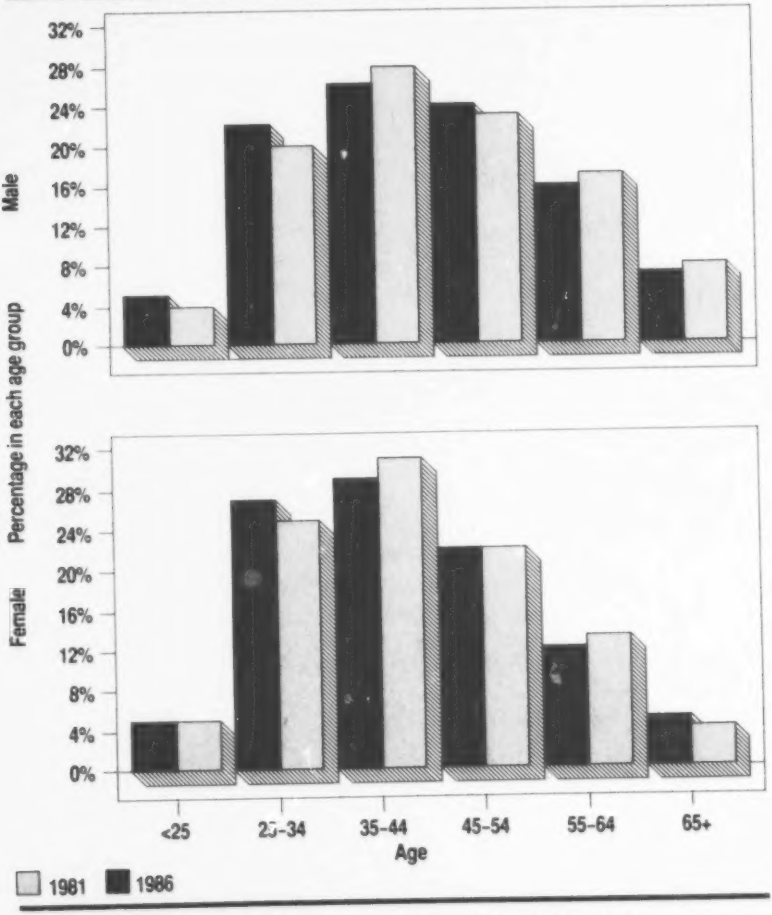
The average age of the workforce in Ontario barely changed between 1981 and 1986. The self-employed, however, were significantly older in 1986, at 44, than all other workers, at 36. As Chart 3.6 shows, the main reason for this difference is the paucity of people aged less than 25 who own their own businesses — about 4%, compared to 23% of employees who are aged less than 25. During 1981 to 1986, the percentage of men aged 45 and over increased one percentage point to 48%, while the percentage of women of that age remained constant at 39% of all women entrepreneurs. The bigger (although still small) changes were among those aged 25 to 44, where both genders decreased their percentage aged 25-34 by two percentage points and increased their share aged 35 to 44 by the same margin.

Women business owners are about two and a half years younger than their male counterparts (42.2 compared to 44.6 in 1986), and the age difference is changing very slowly as self-employed people become older. However, this conceals some interesting differences. The average age of the net influx of self-employed males during 1981-86, at 49.4, was more than five years older than the average age of all self-employed males in 1981. By contrast, the average age of the net influx of self-employed women during the same period, at 43.5, was about a year and a half older than the average for all self-employed females in 1981. However, the net influx rate for women was about three times that of men, so the impact of these age differences on the average for all the self-employed was about the same for both genders. The most striking evidence of the younger average age of the new self-employed women is that 21% of the net influx of woman owners during 1981-86 were younger than 35, compared to a 1% decline among male owners of the same age.

Chart 3.6

The Age Distribution of the Self-Employed

Distribution by age groups of the self-employed, Ontario, 1986

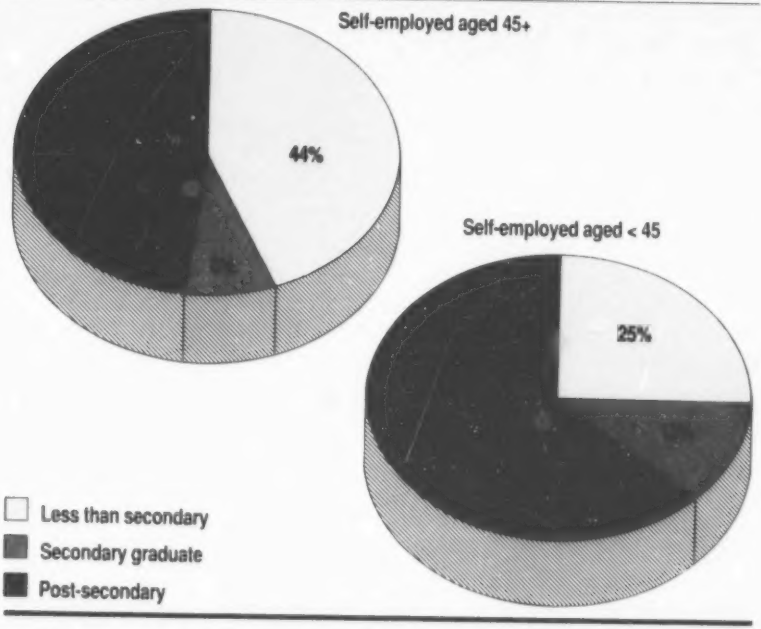


It's noteworthy that the trend is quite different among employees. The average age of the net influx of female employees was slightly higher for women than it was for men (38 compared with 35).

The young people choosing self-employment are also significantly better educated than their older predecessors, as Chart 3.7 shows.

Chart 3.7
Young Entrepreneurs are Better Educated

Educational levels of self-employed people, by age, Ontario, 1986



There is a similar tendency among employees, but it is less sharp. Among employees aged less than 45, 54% have post secondary education, compared to 44% of those aged 45 or more. The difference of 10 percentage points is much less than it is for the self-employed, as shown in Chart 3.7, where the difference is 15 percentage points.

Industry

The service industries are attracting a disproportionate share of self-employed people in Ontario and the primary industries (mainly farming) are shrinking. As Table 3.4 shows, two-thirds of the increase in the number of self-employed people during 1981-86 was in the service industries, although only slightly more than a third of all existing self-employed people were in services in 1986. The major push for this trend came

from services to business, which saw a 45% increase in business owners during 1981-86, accounting for more than half the increase in self-employed people in all the service industries.

This strong trend was particularly evident among self-employed women in service industries, who increased by 44% during 1981-86, compared with 22% for men. In services to business, they increased by 73%, compared to 38% by men. Three quarters of the increase in self-employed women during the period was in service industries, more than half of them (40%) in services to business.

This concentration on services reflects also the paucity of self-employed women in construction. A quarter of the new male entrepreneurs went into construction, compared to only five percent of the women. More than half the self-employed women in Ontario are in services and a quarter are in trade. Slightly more than half the self-employed men are in these

Table 3.4
Where the Self-Employed Like to Work

Self-employed Ontarians in 1986, the increase in self-employment within each industry, 1981-86, and the distribution of the total increase in self-employment across industries, 1981-86

Industry	Number of owners 1986	Increase, Number	1981-86 Percent	% distribution of 1986 Total	% distribution of Increase 1981-86
			%	%	%
Primary	64,180	-6,685	-9	16	-13
Manufacturing	24,195	1,465	6	6	3
Construction	55,470	8,085	17	14	16
TC&U*	17,465	2,160	14	4	4
Trade	86,130	10,005	13	21	20
FI&RE*	11,600	1,900	20	3	4
Services*	148,760	33,205	29	36	66
Other Services	50,330	12,285	32	12	25
Services to Business	49,175	15,195	45	12	30
Total	407,795	50,130	14	100	100

* Abbreviations are for Transportation, Communications and Utilities and Finance, Insurance and Real Estate. The services category includes government services. Other Services and Services to Business are included in the figures shown for Services.

two areas combined. The net influx of new business owners is accelerating this trend, with trade and services claiming 94% of the new self-employed women, compared to 81% of the men. Construction, Manufacturing and Transportation, Communications and Utilities claimed 34% of the new self-employed men during 1981-86, compared with 9% of the women.

When self-employed people choose in which industry they will start their businesses, they do not appear to be motivated by which ones offer the highest rewards. As Table 3.5 shows, the most highly rewarded business owners are in Finance, Insurance and Real Estate, yet this industry attracted only 4% of the new entrepreneurs during 1981-86. The least remunerative industry was "other services", which is part of the service industries, and which paid its entrepreneurs 35% less than the average earnings of all entrepreneurs. Yet "other services" attracted one quarter of all the new business owners during 1981-86.

It's more likely that trends in the industries chosen by the people who choose to become self-employed reflect the industries in which they were employees before becoming self-employed. The industries which attract self-employment seem to be those that offer the most potential for higher rewards than working for someone else. The self-employed earn 88% more than employees in the service industries and 59% more in trade. These are the two most popular industries for emerging self-employment. Finance, Insurance and Real Estate is also remunerative for the self-employed, paying double the earnings of employees — and it is no accident that the number of self-employed in this industry is growing at 20%, second only to the 29% at which services are growing.

Table 3.5

What the Self-Employed Earn in Different Industries

Average earnings in 1986 of business owners in Ontario, by industry; and how they compare with average earnings for all self-employed and the average for employees in the same industry

Industry	Average salary 1986	Self-employed earnings compared to those of all self-employed	Self-employed earnings compared to those of employees in the same industry
		%	%
Primary	$19,476	-17	9
Manufacturing	$35,569	14	43
Construction	$25,924	-2	25
TC&U*	$27,428	23	1
Trade	$26,178	-21	59
FI&RE*	$50,848	20	99
Services*	$37,430	-3	88
Other Services	$18,713	-35	40
Services to Business	$45,891	19	106
Total	$30,496	0	43

* Abbreviations are for Transportation, Communications and Utilities and Finance, Insurance and Real Estate. The services category includes government services. Other Services and Services to Business are included in the figures shown for Services.

CHAPTER 4
THE INFORMATION NEEDS OF SMALL BUSINESS

Information is the fuel to the entrepreneurial machine. Without good information, the best strategic minds go astray, the keenest competitors misread the strengths and weaknesses of other players in the market, and even technical wizards lose their state-of-the-art technological competence. For most entrepreneurs, however, obtaining all the information they need is a pipe dream, because they simply don't have the time or the money to collect all the information they'd like to acquire. With their natural bias for action, small businesses follow the formula attributed to an executive at Cadbury's in In Search of Excellence: "Ready, Fire, Aim".

Entrepreneurs overcome this deficiency by developing an instinct for the marketplace's emerging patterns that enables them to assess correctly what information is critical and what is merely helpful. Then they acquire the minimum amount of information they need to support and guide their improvizations. This reflects their limited financial and human resources, but it also reflects their bias against the cumbersome task, so often a gigantic bore for them, of methodically accumulating meticulous facts. This approach is better suited to large bureaucracies, which invariably delay acting on their plans while they wait for more information. That's why, they are so rarely the first to innovate.

Even if entrepreneurs are usually first off the mark, however, the race doesn't always go to the first one in the market. The major corporations all catch up sooner or later, armed with marketing plans, loaded with facts, scenarios and strategies to guide their every move. Entrepreneurs have a fighting chance of surviving this inevitable onslaught only if they can maintain their grasp on the relevant information to keep one step ahead of the charging competition.

In seeking this competitive edge through their sensitivity to emerging patterns in the marketplace, entrepreneurs come equipped with a secret weapon, which they earn the hard way, through the discipline forced on every entrepreneurial

company. They have a visceral feel for their environment, because they have no choice but to stay close to their customers, employees and every facet of their business operations. It gives them an instinct few large firms can nurture in their managers.

The task of feeding that instinct with the right information is critical to the success of entrepreneurs. In general, they approach this task by establishing what information they cannot do without, and where to find it when it becomes necessary. There is an important distinction between two kinds of information needs. The kind that has received the most attention in the past several years might be called tactical information. It is necessary to implement strategies competently — how to set up financial records, how to draw up a business plan, how to do a market study, how to motivate people and many other facets of running a business. The nature of this information is easily identifiable and it is available from many sources at whatever level of sophistication and price the entrepreneur may choose.

The nature of the other kind of information cannot be identified in advance and there is no map to its source. It includes the strategies of competitors, technological innovations, the needs of potential customers, potential discontinuities in the economy or an industry, and many more variables. This might be called strategic information, since it is necessary to the formulation of strategies. Entrepreneurs who wish to succeed have to find a way of gaining access to the sources of this information, much of which they might not even know exists.

Tactical Information

Information on how to run a business has become available from a wide variety of sources in the past decade. Numerous excellent books have been published; governments and banks have developed extensive reference works for small businesses; and independent management consultants have blossomed in a market that is growing exponentially.

The critical consideration for small businesses is that they don't want to spend time accumulating all this knowledge unless they have a specific use for it. Entrepreneurs therefore generally prefer to seek tactical information in books or

manuals, because they can lay their hands on it when, and only when, they need it. As Table 4.1 shows, when entrepreneurs need assistance, printed matter is their preferred means of getting at it. Other means, such as one-on-one counselling or seminars, are less convenient because their timing cannot be controlled by the entrepreneur — and timing is critical to people under great pressure.

Table 4.1[1]
Where Entrepreneurs Like to Get Their Information

Source of assistance	Percentage who prefer this source of assistance
	%
Printed matter	51
Seminars workshops	25
One-on-one counselling	16
Post-graduate education	5
Combination of the above	3

In a recent study of Ontario small business start-ups[2], about half the start-ups were aware of the rich supply of information from the Ontario government, but only about 10% used it. The highest level of awareness was for financing programs (57%), the lowest was for publications (47%), but the publications were most widely used (17%). The least popular government service was counselling (6%).

Strategic Information

Successful entrepreneurs draw on two main types of sources for strategic information. One is to scan all the relevant books, magazines, papers and technical material they can lay their hands on. This provides them with ideas, clues about the marketplace or straws in the wind that will help them identify information they should know exists, including business ideas. The important part of the process is identifying the need for that information; the subsequent task of acquiring that information is relatively straightforward. The

[1] *The Ohio Entrepreneurs Survey*, Catherine Ashmore, The Ohio State University, 1989

[2] *Newly-formed Small Businesses in Ontario, 1982-87*, by Laventhol & Horwath, 1988

other main type of information source for entrepreneurs is a powerful network of friends and associates who can advise them and who can steer them toward opportunities or away from potential problems.

Neither of these sources of information consume much cash, but both demand a major commitment of time from entrepreneurs if they are to be effective. Many are not prepared to make that commitment, which is why their information base is shallow, unfocussed and highly intuitive. If their intuition is good (as it often is), this is not a problem, but if it isn't, they usually fail.

Entrepreneurs usually prefer to gather strategic information through personal contact, but they are also often assiduous readers. In a recent study of successful Canadian entrepreneurs[3], slightly more than half (56%) read more than an hour a day. Only one-sixth read very little and 28% read about an hour a day. Some of them are voracious readers, who may consume up to 100 periodicals a week, and it is not uncommon to find entrepreneurs who read 40 to 60 publications a week, sometimes devoting as little as an hour a day to the task.

They are also avid readers of books, often on subjects that have very little to do with their businesses. All but 6% of the people in this study said they read books regularly. Almost a third read no management or business books, preferring, in equal proportions, fiction and non-fiction on subjects other than business — notably biographies and historical fiction, from which they try to absorb the lessons of leadership from other leaders.

Personal Networks

About a quarter of the entrepreneurs in this study[4] do not make a special effort to build a personal network for business purposes. They still have circles of contacts, but they are smaller and narrower. And when they choose the members of their networks, by default or otherwise, they look for immediate, specific benefits from their acquaintance. Compared to

[3] Unpublished material from research conducted for *The Entrepreneurial Edge*, by Donald Rumball. Key Porter, 1989

[4] Ibid

the entrepreneurs who make a special effort to build a personal network, they read a lot less (more than a quarter say they read very little).

The other three-quarters of the entrepreneurs in this study make a special effort, consciously and assiduously, to build a comprehensive network of contacts who can help them plan their business and who can contribute the fragments of information that lead to the identification of opportunities. They design their networks to include a high proportion of people who offer little immediate benefit in terms of advice or opportunity, but who may be useful to them in years to come — a sort of contingency network. Many of these people are not close to the entrepreneur, because an effective network contains its share of weak contacts who can give dispassionate views, undistorted by too close an association with the entrepreneur. Many of them maintain contacts in other industries and countries to keep their perspectives of their own businesses fresh.

For the people who make a special effort to build a network, all this takes time, of course — a commodity in short supply for entrepreneurs. This is particularly true for smaller companies that are growing rapidly. The entrepreneurs in these firms are the least likely to build networks, because they are too concerned with internal problems to worry about external, long-shot contacts. If they have a network at all, it is heavily weighted toward experts who can provide basic advice on running a business or managing the relevant technology.

As the business grows, it reaches the most vulnerable stage when it becomes mid-sized, and entrepreneurs at this stage need a contingency network to chart the course toward sustained growth. As Table 4.2 shows, these entrepreneurs make a special effort to build their networks.

Table 4.2[5]

Growth Stages and Personal Networks

The effect of firm size on the effort to build a personal network

Size of firm*	Distribution of entrepreneurs	Distribution within each firm-size of effort to build a network: Special effort	No effort
	%	%	%
Very small	4	75	25
Small	35	74	26
Medium	38	86	14
Large	17	59	41
Very large	6	100	-
Total	100	77	23

* Size categories are determined by the number of employees or the annual sales, with the former taking precedence if the two are not consistent.

Size	Employees	Annual Sales
Very small	less than 10	less than $2 million
Small	11-99	$2-$10 million
Medium	100-499	$10-$50 million
Large	500-2,499	$50-$250 million
Very large	more than 2,500	more than $250 million

Still later, once they become large, the successful companies acquire sufficient depth in their managerial structure that the level below the owner does most of the networking. Greater financial resources also enable the firm to spend a lot more money buying information through market research. The entrepreneur then becomes the synthesizer who paints the backdrop to strategic decisions and who can return to managing the internal affairs of the business. Finally, in the very large firms, the entrepreneur becomes the link to the world far beyond the specific affairs of the business and creates a vast personal network from all walks of life.

Because this study is focussed on successful entrepreneurs, it contains a weighting of very small firms that is far below that for all firms in Ontario and Canada. The results therefore reflect more established entrepreneurs. This does

[5] Ibid. Unpublished research from *The Entrepreneurial Edge*

not affect some overall averages, such as the proportion who make a special effort to build a network, because the smaller firms are close to the average of mid-sized, large and very large firms.

A critical part of personal networks is the choice of people who are in them. At start-up, the emphasis is inevitably on experts who can provide specific advice for the new venture — accountants, lawyers, bankers and people already in the same business. As Table 4.3 shows, suppliers, government people and business consultants rank much lower in importance at this stage.

Table 4.3[6]
Preferred Sources of Advice at Start-up

Percentage of owners who say they seek advice from the type of people shown when they start their business

Source of advice and/or information	Percentage who use the source of information %
Accountants	54
Lawyers	54
Someone in same business	47
Banks/financial institutions	45
Suppliers	37
Government	15
Business Consultants	10

As the business matures, the composition of the network changes. Fellow businesspeople become the most popular network targets. Entrepreneurs love to talk shop with people who can relate to their problems, even if they cannot provide all the answers. And they often come up with useful ideas.

As Table 4.4 shows, the second most popular people for the networks of successful businesses are customers. These people are rarely mentioned in start-ups, which naturally have few customers to speak of. However, almost half of the successful entrepreneurs include customers in their networks

[6] Ibid. *Newly-formed Small Businesses in Ontario, 1982-87*

— and they show more enthusiasm for these contacts than any other type. They often describe their customers as their best R&D or as the source of most of their ideas. Later, as a product line becomes established, the entrepreneurs reduce their contact with customers. About 60% of the small and very small firms cultivate their customers, compared to a third of the very large firms.

Table 4.4[1]

The People in the Networks, by Size of Business

Percentage of entrepreneurs in each size group who have in their networks the types of people shown

Type of network members	Total	Firm size*				
		Very small	Small	Medium	Large	Very large
	%	%	%	%	%	%
Businesspeople	90	100	84	100	77	83
Customers	44	75	58	32	38	33
Government	39	100	35	35	15	83
Suppliers	23	-	39	12	15	33
Professionals	22	50	23	18	8	50
Average number of network types	2.17	3.25	2.39	1.97	1.54	2.83

* Size categories are determined by the number of employees or the annual sales, with the former taking precedence if the two are not consistent.

Size	Employees	Annual Sales
Very small	less than 10	less than $2 million
Small	11-99	$2-$10 million
Medium	100-499	$10-$50 million
Large	500-2,499	$50-$250 million
Very large	more than 2,500	more than $250 million

Customers and businesspeople are the backbone of any network. At least one of them is present in every network. But there are other types of people the entrepreneurs choose, shown in Table 4.4 in order of popularity:

- Government people are especially popular among the

[1] Ibid. Unpublished research from *The Entrepreneurial Edge*

smallest firms, which look to them for basic advice and funding. Very large firms also court government contacts, both to keep on top of upcoming contracts and to stay close to the moving feast of government assistance programs. The firms in between are sufficiently independent that they can manage without government assistance and too busy to spend the time to acquaint themselves with what governments can offer them or to find out how to approach the task of getting it.

Suppliers can be an important source of industry information. They are privy to their industry's newest technological developments since they have to adapt their products accordingly. Often competitors are customers of the same supplier. Professionals are the least popular candidates for entrepreneurial networks. A professional can often give insights or ideas based on a thorough knowledge of the business, but many of them are not normally trained in the ways of business — and many entrepreneurs feel that an excellent professional often turns out to be a poor businessperson.

On average entrepreneurs have slightly more than two types of people in their personal networks, with the most enthusiasm coming from the very small and the very large firms. (As mentioned earlier, the weighting given to small firms in this study is less than the universe.) By contrast, the people who do not make a special effort to build networks cast their nets less widely — almost two-thirds of them limit themselves to just one type. These people virtually ignore government people, whereas almost half the networkers cultivate them. The only type that receives more attention from the people who don't make a special effort than from those who do make the effort is customers, who are in the networks of 67% of the former and 41% of the latter.

The Board of Directors

A director of a company is quite unlike any other member of an entrepreneur's personal network. For entrepreneurs, a board is an unparalleled source of inexpensive advice from people who should know their firms' affairs intimately. A board is therefore potentially the most powerful part of a personal network. But it can also be the bane of an owner's life. Active boards of

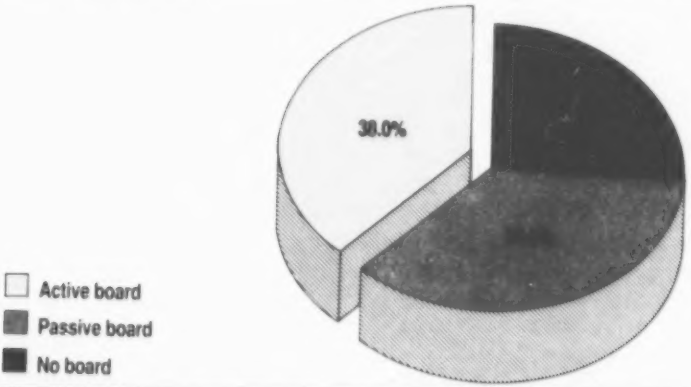
directors impose a discipline that forces entrepreneurs to articulate their strategies, at some risk they'll be found wanting. For some owners, this constitutes meddling by directors in affairs they don't fully understand and a potential hindrance to the entrepreneur's freedom of action that far outweighs the advantages of free advice and leads.

That's why so many smaller businesses dispense with boards of directors. As Chart 4.1 shows, more than a quarter of the entrepreneurs in this study have no board at all - and almost half the remainder have passive, rubber-stamp boards, made up mostly of employees. In this study of successful entrepreneurs, a mere 38% have active, effective boards of directors to whom they look for leads, advice and fresh perspectives.

Chart 4.1[8]

How Entrepreneurs Use their Boards, If At All

Percentage of successful entrepreneurs who have active boards of directors, passive boards or no board at all



[8] Ibid. Unpublished research from *The Entrepreneurial Edge*

The approach entrepreneurs adopt toward their boards of directors invariably reflects their attitudes toward taking advice in general. The ones who have active boards generally believe in seeking advice from their employees when they formulate their strategies and they draw business ideas from everywhere, as Table 4.5 shows.

Table 4.5[9]
How Entrepreneurs Use Their Boards of Directors

Distribution of entrepreneurs with no board, a passive board and an active board, by other traits that concern how they seek advice

Status of the board of directors	All owners	Distribution of types of board when: ideas for the business come mainly from		employee participation in strategy formulation is	
		the owner	others	significant	negligible
	%	%	%	%	%
None	26	36	6	17	55
Passive	36	42	26	36	35
Active	38	22	68	47	10
Total	100	100	100	100	100

It's particularly striking that almost all the entrepreneurs who have no board of directors believe they alone generate all the good ideas for their businesses. And when they do have a board, these independent-minded people keep them firmly in their place — only one-third of their boards are active, compared to almost three-quarters of the boards of the rest of the entrepreneurs. Similarly, more than half the entrepreneurs who keep their employees out of the strategy sessions reject the utility of a board entirely and only 10% of them run active boards.

As might be expected, very small firms are most allergic to directors — one-half don't have boards, compared to one-third for small and medium-sized firms, and none at all for the

[9] Ibid. Unpublished research from *The Entrepreneurial Edge*

large and very large firms. And when the very small firms do have a board, they are usually passive. For these firms, the imperatives of survival make leads and fresh perspectives irrelevant - they need professional help rather than friendly advice. As firms grow, however, active boards become more important. Almost all very large firms have them, although only half of the large firms in this sample have them.

Associations

The principal vehicles for finding the people to build networks are associations. Only a tenth of the entrepreneurs in this study built their networks without joining a single association. The rest have joined one or more associations of like-minded people, sharing common interests or objectives, as Table 4.6 shows. There are five principal types of associations that entrepreneurs join to further their business interests.

Table 4.6[10]

Entrepreneurs' Membership in Associations

Percentage of entrepreneurs who join given associations, by whether they make a special effort to build a network

Type of association	Entrepreneurs who belong to the associations shown and who: make a special effort to build a network	do not make an effort to build a network	Total
	%	%	%
Trade association	72	40	66
Community organizations	49	7	41
Other company boards	40	7	34
Charities	26	7	23
Entrepreneur groups	21	7	19
None at all	3	40	10
Average number of associations	2.08	.68	1.83

[10] Ibid. Unpublished research from *The Entrepreneurial Edge*

- By far the most popular, for obvious reasons, are the trade associations. Even if it's only to keep up with technological developments, most entrepreneurs pay their dues and go to industry meetings. Many go a lot further, acquiring a high profile through their trade associations. They're quoted in the press because they are on the executive, they meet all the leading players in the industry, they meet their counterparts in the same industry in other countries.

Generally, few well-established entrepreneurs are active in their trade associations. At a certain point, they phase themselves out of them, leaving it to their employees to keep in touch. They prefer to limit their involvement to specific areas they are particularly interested in. For a few entrepreneurs, trade associations are anathema. These people feel there is little they can learn from them and too much they can teach their competitors.

- The second most popular affiliations are community organizations, including Chambers of Commerce, export associations, local associations designed to promote some aspect of local industry (R&D for example) and local projects varying from an agricultural show to educational institutions. These organizations offer entrepreneurs access to a wide range of contacts from many industries and regions.
- A third of the entrepreneurs are directors on the boards of other companies. Intimate involvement in the challenges and problems of other people's businesses is in itself a learning experience, but these entrepreneurs also often derive an even greater benefit by embarking on quite separate ventures in partnership with their fellow directors. The camaraderie of these friendships is an important by-product, but the real pay-off is in their improved business acumen.
- Charitable organizations offer a marvellous opportunity to build relationships in an environment where the basis for co-operation is relatively easily established. The motivation here is much the same as belonging to community organizations, except that it is a great deal

more demanding on their time and the friendships formed in the course of performing their duties are usually more solid, mainly because they have shared so much more of themselves.

- Finally, there is a growing realization of the advantages of belonging to associations of entrepreneurs. The Canadian Federation of Independent Business led the way, putting entrepreneurs on the political map in this country. A splinter group later formed the Canadian Organization of Small Business, which is also a lobby group, although it has a greater proclivity for providing business advice to its members.

The newest generation of entrepreneur associations are more like mutual assistance groups. In an environment pioneered by the Young Presidents' Organization, they meet in small, local groups to discuss each other's problems and opportunities. There's no need to disclose too many pertinent details about their businesses, but members of the group have an opportunity to bounce specific ideas or problems off their usually empathetic colleagues.

The extent to which entrepreneurs use any of these five types of associations depends on their attitude toward networks. The people who do not make a special effort to build a network belong to few associations other than trade associations — and 40% of them belong to no associations at all, compared with 3% of entrepreneurs who do make an effort. On average the networkers belong to three times as many associations as the others.

CHAPTER 5
EMPLOYMENT CONDITIONS IN SMALL BUSINESS

Entrepreneurs do care about their employees, it would appear. In a recent survey conducted with the readers of Small Business Magazine, Ontario's owner-operators presented a picture of themselves as a thoroughly conscientious group. The responses to the "Best Bosses" survey[1] may not be representative of all small firms, because the 263 Ontario respondents averaged annual sales of $6.8 million and employed, on average, 51 full-time and 14 part-time people. But these companies have personnel management systems that would do most big companies proud.

And they are proud of it. They believe their employees would rate them 7.7 on a scale of 1 to 10, with 10 being an excellent boss. Other results of the survey include:

- More than half (56%) have written job descriptions for their employees, more than half of which were developed jointly between the supervisor and the employee;
- Almost three-quarters (72%) give their employees annual performance reviews. One-quarter prepare career plans for their employees;
- 92% have a policy to promote from within;
- The average pay increase last year was 8.8% and most of them (60%) also have bonuses, profit sharing or stock ownership plans; and
- They spend an average of 2.9% on employee training, most of which is for strictly job-related skills (although fully 30% said their training wasn't limited to job-related skills). A third also offer counselling for employees with personal problems.

The survey illustrates the lengths to which some

[1] See *Small Business, The magazine for Canadian entrepreneurs*, November, 1989.

entrepreneurs are prepared to go to look after their employees. It may help dispel some of the myths about entrepreneurial management. Having said that, it's likely that most small businesses don't share the enthusiasm of these people for comprehensive human resource management systems.

Human Resource Management in Small Business

The Small Business Branch of the Ministry of Industry, Trade & Technology has looked into how small firms in Ontario manage people. In the first half of 1989, the branch undertook research on human resource management. This included a review of all available materials and services as well as a series of focus groups of owners of small and mid-sized firms. Also, the Committee of Parliamentary Assistants for Small Business went on a tour of seven cities in the province to seek out the views of small business owners and other affected institutions on training. This tour visited North York, Thunder Bay, Mississauga, Windsor, London, Niagara Falls and Ottawa and spoke with many small businesses and other relevant institutions, including representatives from the school system, government agencies, unions, banks and companies in the training field.

The preliminary findings of this research have been as follows:

- ***Benefits of training in management of human resources for owners and senior managers***
  Owners who have invested in training to improve their human resource management report they have enjoyed significant benefits. These firms told the Parliamentary Assistants they enjoyed lower staff turnover and developed better staff-management relationships as a result of the training. In some cases, product quality improved and direct financial benefits were obtained, such as a reduction in insurance premiums for delivery trucks, because drivers became more careful. Others found that supervisors who had been trained to provide appropriate discipline were able to extract greater efficiency from the workforce.

  The views of these firms are not shared by all small businesses, however. Even the focus groups, which were

composed of people who were positive toward human resource management, indicated there is little consensus on what human resource management is. Their understanding of the phrase usually centred on any one of recruitment, termination, orientation, development of people to increase efficiency and employee training. The last was the most common understanding.

Whatever this sphere of activity may be called, it doesn't rank high on the priority list of most managers of small firms until it's a crisis. Their knowledge of the subject is usually gleaned from casual sources — occasional books they have read, discussions with associates and counterparts in other firms, mentors, observations from their experiences on the job and, rarely, videos on the subject. Most owners and senior managers recognize that this knowledge base is inadequate for the motivation and management of their employees, but they are not inclined to do anything about it.

The Parliamentary Assistants also found that a major difficulty for small firms is that they don't have enough employees to allow one person to specialize in the function of human resource management. They therefore have to take someone off their current duties or, more often, ask a supervisor to do it in his or her spare time. These people have no formal training in human resource management.

Experts interviewed by the branch said that small firms start doing something about human resource management only when they suffer a severe labour shortage. And their response is usually ad hoc. Few of them make the connection between current labour shortages and the human resource issues they ignored previously. Another trigger that prompts attention to human resource management, according to the focus groups, is the sudden enlightenment of the owner or senior managers, who might suddenly decide they should do something about it. Often this is caused by an impending crisis or the firm reaching a size where it becomes imperative to organize the human resource management more formally.

The focus groups found that owners of small firms will

embark on an investment in human resource management only if they can recognize the potential for improving efficiency or the bottom line. This reticence is reinforced by the perception of many owners that their problems in recruiting and retaining their employees reflect the business environment, not their internal human resource management.

The Parliamentary Assistants found, moreover, that trained workers are often raided by other firms that do not train their own employees. Big firms, particularly, can offer better compensation and benefit packages than small firms, which makes it hard for them to keep the employees they have trained. Also, many have found it hard to replace the skilled workers in traditional fields when they have had to train them to work on computers.

There are significant regional variances in the problems encountered by employers in small firms. In Northern Ontario, for example, a lot of trained employees leave to go south, where they can find more opportunity with their new skills. This applies particularly when firms hire skilled labour from other regions of the province, so they find they have more success hiring local people and training them themselves. In Windsor, there are different problems, caused by the rapid pace of change in the automotive industry. Many firms in this region say technology is changing so fast, there's no time to wait for people to acquire new skills. Poaching skilled labour is a major problem in Windsor.

The employees themselves are perceived as being even less enthusiastic about training than the employers. The Parliamentary Assistants were told that few employees arrive on a new job with formal training, and any skills they do have are usually acquired through personal interest. Many of them don't think they need the training because they believe the current economic boom will go on forever and they don't want to invest in their own development. There is some concern that the culture of Canadian-born employees mitigates against the acquisition of skills on the job, because they are not accustomed to starting off in a lowly, unskilled position and working their way up to a skilled job. This is why

some employers prefer immigrants as employees.

Overall, the branch's internal research concludes that it is important for the future economic well-being of the province to promote the concept of human resource management to small businesses. It has to be carefully targeted to their needs, however. Once firms reach 75 employees, they start appreciating, without prompting, the importance of human resource management, so they do not need to be informed of the importance of the human resource management function. They need to know where they can acquire information on human resource management. These firms, employing 75-100 people in manufacturing or 20-100 in services, are the initial target group for government training programs. The more serious gap in Ontario, however, is in firms with 10 to 50 employees. These firms are so busy fighting to survive or dealing with an onslaught of crises, they seldom appreciate the need for human resource management, but they need it as much or more than bigger firms.

The major challenge is to persuade the owners of these firms they need help. Because so much of the materials and services currently available are too general to be of much specific use to small firms, there is little inclination to use them. The focus groups concluded that the best way to disseminate human resource management concepts would be through workshops or seminars followed by extensive one-on-one counselling. However, media blitzes and other more general approaches may also be needed.

- ***Effectiveness of existing institutions for human resource management***

The branch's internal investigation found many private and public sources of education in human resource management. Those offered by management consultants are often too expensive for small firms and therefore little used, although there are some notable exceptions. Many services are provided through trade associations or local chambers of commerce or small-business organizations, such as the Canadian Federation

of Independent Business (CFIB) and the Canadian Organization of Small Business (COSB). However, many of these programs are not designed for the specific needs of any particular small firm, so they are also not used enough. Owners and senior managers in small firms tend to use their informal networks to accumulate information about human resource management, but this is seldom sufficient for their needs.

The most accessible programs for small firms are provided by the education system, apprenticeships and government programs. The latter is discussed in the next section. This section deals with the first two.

The CFIB said its surveys showed that employers in Ontario, where unemployment is lowest, are more dissatisfied with the training services offered by both public and private institutions than are employers in any other province. Ontario's high schools also got the lowest ratings in the country.

Two themes emerged repeatedly, in the focus groups, the Parliamentary Assistants' tour and the branch's investigation, on the subject of the education system:

1. There is widespread agreement that the basic education system is central to the success of any form of post-secondary training. Unless basic education is improved, vocational training schools will always lag industry's and employees' needs. (For more on this, see the section later in this chapter titled "The training of young people entering the workforce").

2. Parents and teachers currently project a poor image of technical careers, thereby depriving industry of many people who would be better suited to technical trades than service jobs, particularly white-collar jobs.

It was suggested that vocational training opportunities should be promoted more actively in high schools, perhaps through the Career Counsellors. It was reported by an Ottawa-area school that its School Work Apprenticeship Program (SWAP) was working well. This program, modelled on the system in West Germany, prepares students for apprenticeship training, enabling

them to complete their apprenticeship requirements within a year or two of leaving school. The program has been approved by the Ministry of Skills Development.

The community colleges now play an important role in technical training, but they are often forced to work with inadequate resources, particularly in terms of qualified staff. They are also having some difficulties meeting the needs of small businesses, which don't always understand the role of the community colleges. The Parliamentary Assistants were told that small firms often confuse organizational problems with training problems.

The most severe criticism was reserved for apprenticeship programs. The Parliamentary Assistants were told there is a feeling among small firms that the Canadian apprenticeship programs are not as good as those in Europe because they don't provide students with enough basic skills. Others also felt that they restrict entry to their programs, sometimes excluding women, or demanding unnecessarily high educational qualifications. Some nonetheless felt that apprenticeships should be expanded to more trades to give them the opportunity to define their training needs.

- ***Federal and provincial government programs in human resource management***

  Some of the principal government programs that deal with human resource management include:

  - The Ontario Ministry of Skills Development (MSD) manages Skills Development Offices (OSDOs) across the province. These are storefront operations, designed to mesh with small-business needs.

    MSD has also staged an Introductory Level Human Resources Planning workshop free of charge. It was a one-day seminar, run by private consultants, who helped small firms to identify the costs and benefits of human resource management and made them aware of the additional resources available to help them in this area. The Ministry also sponsored a two-day Advanced Level HRP workshop, for a fee of $150, which explained how to install human resource

systems, using a personal computer, if appropriate. Responsibility for this program has been passed to the Ontario Training Corporation, which was created in 1988.

- The Federal Business Development Bank. The FBDB runs many courses and seminars, including seminars aimed specifically at recruiting and selecting personnel and human resource planning. The bank also runs the CASE program, which uses the skills of retired executives to counsel small firms on any matter, including human resource management.

  One of the most notable innovations at FBDB is the Community Business Initiative (CBI) program, which helps small firms help themselves. It was started in Orillia and Barrie in the fall of 1988 and is rapidly spreading all over the province and the country. The bank approaches a community to form an advisory committee, which assembles about 30 local businesspeople who are not competitors and invites them to participate in a 12-month program of mutual education in management.

  The program is led by a full-time program advisor, who arranges ten monthly sessions, each led by a skilled resource person. The participants share their experiences with each other in these sessions. Between group sessions, the advisor spends some time every month with each individual participant. Each small business spends a total of 80 hours in the program, 40 in workshops and 40 in one-on-one counselling.

  The role model for CBIs is the Northwest Enterprise Centre in Thunder Bay, which was initially funded partly by a grant from the Ministry of Industry, Trade & Technology (MITT). It now has 400 graduates.

- Employment and Immigration Canada (EIC). In its Canadian Jobs Strategy, EIC has a range of programs designed to help communities create and preserve businesses, subsidize training costs in approved institutions and contribute to the funding of new

projects. The department also subsidizes training costs for employees and small-business owners in its Skill Investment Program, as it does in its National Labour Market Innovations Program. It helps all businesses adjust to change through its Manpower Consultative Service and reimburses wage costs of employees sent to approved training institutions for up to two years. Finally, EIC sponsors, with the YMCA, Youth Enterprise Centres in nine cities across Canada.

EIC has also signed national human resource planning agreements with several major industrial and professional associations, aimed at matching the demand and supply of certain skills. And Regional Human Resource Planning Consultants co-operate with industry in planning for skills development.

In its investigation, the Small Business branch of the MITT found that OSDOs are extremely popular among small businesses. Their one-on-one approach is particularly successful. The main comment on the OSDOs is that they focus too narrowly on setting up programs — their clients would like to see them stay with them longer. The Parliamentary Assistants were told by OSDO managers that they are stretched too thin to perform a long-term training function. They can only aim to help small firms understand the benefits of training before they move on to the next client. The important step is to leave the clients with a structure for the further development of human resources. At that point, the clients worry less about the dollars.

A related comment arising out of the success of the OSDOs, but not part of the OSDOs' responsibilities, is that it now takes three months to get people into community colleges for training courses, compared to the four weeks it took previously. Other owners commented to the Parliamentary Assistants on the amount of paperwork required for MSD assistance. There must be some paperwork, of course, and the Ministry has kept it to a minimum, but it was suggested that MSD might consider a smaller package

to upgrade a small firm's training program, without overhauling it.

In general, small-business owners are favourably inclined toward government initiatives in human resource management, according to the focus groups. Since the governments do not have a profit motive, the owners believe they will obtain good value for money. However, there was some debate over whether this is appropriate and concern at the likely level of paperwork.

- **The Training of Young People Entering the Workforce**

The problems, mentioned earlier, of perceived inadequacies in the basic education system are reflected in the uneasy transition of high school leavers into the labour force. A recent study by the MSD examined 1,400 young Ontarians aged 17 to 28 who either left high school or intended to leave high school without pursuing any further education. These account for about two-thirds of all high school leavers, split equally between those who completed their secondary school education and those who dropped out of school. Their reasons for not pursuing further education were primarily that they needed the money (46%) or they perceived barriers to further education, such as discouragement or personal reasons (34%). Another 28% rejected the utility of further training. And 12% expected to return to their studies after taking some time off.

Only 13% of these young people received any career counselling at school, none of it from their high schools. Although all of these students went straight into the labour force (or intended to, in the case of the students still at school), more than half of them did, in fact, receive further training after they left school. Of those who did receive further training, two-thirds had only job-related training, while the balance pursued further training out of personal interest.

Many of these school leavers did, in fact, return to post-secondary educational institutions, as Table 5.1 shows, but many would have preferred not to have been

limited to on-the-job training. Only 39% actually went to community colleges or university, but 78% would have preferred to do so.

Table 5.1[2]
What School Leavers Would Like and What They Get

Among school leavers who did not anticipate further education when they left high school, a comparison of the sources of further education they actually got and the sources they would have preferred

Sources of further education and training	Actual sources	Preferred sources
	%	%
Community College	37	59
On-the-job training	24	7
Apprenticeship	12	3
Private college	8	4
Correspondence course	2	2
University	2	19
Government training	-	2
High school	-	2

The study uncovered a major motivation in pursuing post-secondary education — insecurity of employment. Among the young people in the sample who felt secure in their jobs, a third were very interested in acquiring new skills, compared to two-thirds for those who did not feel secure.

Legislative Initiatives

The government is committed to promoting employment equity. Employment equity is a process that will provide a framework for the progressive integration into all areas of the workforce those groups that are either disadvantaged or minorities. The final form was not determined when this report was printed, but there appear to be two options:

- Option one involves persuading broader public and private sector employers to undertake employment equity

[2] Pathways, a study of labour market experiences and transition patterns of high school leavers, conducted by Decima Research for the Ministry of Skills Development, 1989

for a number of disadavantaged groups on a voluntary basis. With this approach, the government would provide inducements to employers; and

- Option two would be to regulate the implementation of employment equity through the introduction of mandatory legislation or comprehensive programs such as contract compliance.

As this report was written the government was consulting interest groups about these two approaches. Groups being consulted include: the designated groups (women, minorities, disabled persons and aboriginal people), business associations, labour organizations and public sector employers.

The government will also be amending legislation governing working conditions to reflect changes to the Unemployment Insurance Act. This will affect pregnancy leave and paternity leave, among other things.

Payroll Taxes

Employers are currently required to pay the federal and provincial governments three taxes which are levied on payroll — for Unemployment Insurance (UI), Canada Pension Plan (CPP) and the Workers' Compensation Board (WCB). From January 1, 1990, a fourth has been added in Ontario — the Employer Health Tax (EHT), which will replace premiums formerly paid to the Ontario Health Insurance Plan.

The EHT is not levied on about a quarter of a million Ontarians who are sole proprietors. These people benefit because they are no longer paying premiums for the Ontario Health Insurance Plan ($357 a year for individuals, $714 for families), and they are not required to pay the EHT. For small firms with employees, the EHT will cost 0.98% of payroll if their total payroll is less than $200,000 or 1.95% of payroll if their payroll is more than $400,000. Firms with payrolls of $200,000 to $400,000 will pay a graduated rate. In 1987, there were more than 304,000 enterprises with employees in Ontario, of which 298,000 (98%) were small firms employing fewer than 100 people. The average payroll for these small firms in 1987 was $118,000 and the average number of employees was 5.4. About 80% of small businesses in Ontario

will therefore pay an EHT of 0.98% of payroll.

The effect of the EHT, along with expected increases in the other payroll taxes, on small businesses (assuming they pay the EHT at 0.98%) will be to raise payroll taxes 25% in 1990, to $2,258 per employee, from $1,807 in 1989. In 1983, the total payroll taxes per employee paid by small businesses was $1,091. As Chart 5.1 shows, the EHT will account for about 10% of the total payroll taxes in 1990.

The net impact of this increase in payroll taxes on small businesses is difficult to assess. Small firms are more labour-intensive and they are the primary creators of new jobs, so they will pay a disproportionate share of the higher level of payroll taxes. However, a great deal depends on whether they have been paying all or part of the OHIP premiums for their employees. A firm with high salaries that has not been paying OHIP premiums for its employees will be subject to a sharp increase in payroll taxes, but a firm with low average salaries that has been paying OHIP premiums in full for its employees will be better off. In a small firm, an employee earning about $36,000 will require an EHT of $353, or about the same as the $357 OHIP premium for individuals. So, employers who paid their employees' OHIP premiums and have an average wage of less than $36,000 are better off.

It's not known how many small firms paid their employees' OHIP premiums, but previous studies[3] have shown that all or part of the OHIP premiums were paid by 22.5% of firms younger than three years and 83% of manufacturing firms with 50 to 200 employees. The Canadian Federation of Independent Business has also conducted a study in which it found that 43% of its members paid all or part of their employees' OHIP premiums in 1983. About 70% of all OHIP premiums are paid by employers, small and large. It therefore seems likely that a little less than a half of small firms were paying all or part of their employees' OHIP premiums, so the impact of the EHT on them will be reduced accordingly.

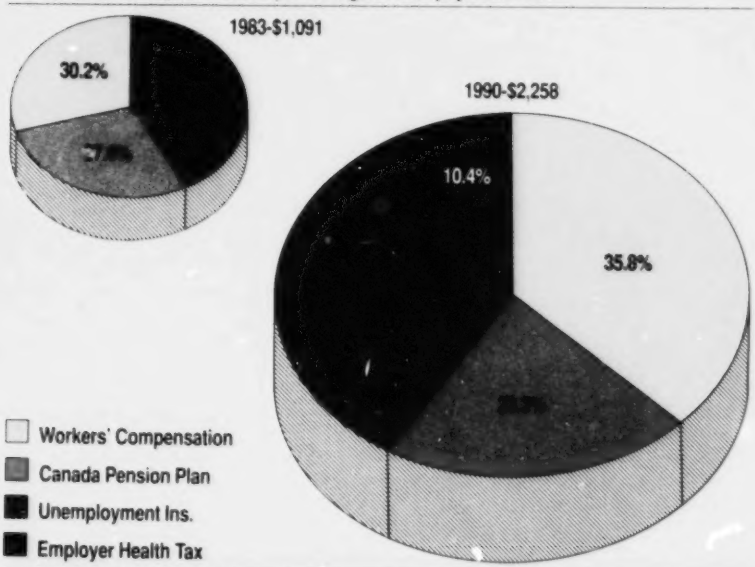
The EHT is not the only factor in the rapid increase in

[3] Small Business Payroll Taxes, 1987, prepared by the Small Business Branch of the Ministry of Industry, Trade & Technology, March, 1987.

Chart 5.1[4]

The Payroll Tax Load, 1983-90*

Each payroll tax expressed as a percentage of total payroll taxes



* The taxes for 1990 are estimated on the assumption that CPP and WCB continue their traditional rates of increase and that UIC premiums will return to their 1988 levels as a result of changes introduced in the 1989 federal budget. The EHT is assumed to be the minimum of 0.98% of payroll.

** This does not take into account any savings to employers who had been paying OHIP premiums for their employees.

[4] *Internal research, Ministry of Industry, Trade and Technology, based on data from Canada Employment and Immigration, Workers Compensation Board of Ontario and Statistics Canada, Small Business and Special Surveys.*

payroll taxes. WCB premiums have risen so dramatically since 1983, that they have increased their share of total payroll taxes despite the addition of the EHT. This has meant that UI and CPP have reduced their share of total payroll taxes, despite a significant increase in dollar terms. UI and CPP account for about 50% of payroll taxes in 1990, compared to 70% in 1983.

The combined payroll taxes will amount to 8.7% of payroll (including payroll taxes) in 1990, compared to 5.9% in 1983, as Chart 5.2 shows. Workers' Compensation will rise to 3.1% of payroll from 1.8% of payroll in 1983. UI premiums decreased in 1989 to 2.6% of payroll thanks to a surplus in the premium account after six years of economic growth, but are expected to return at least to 1988 levels in 1990.

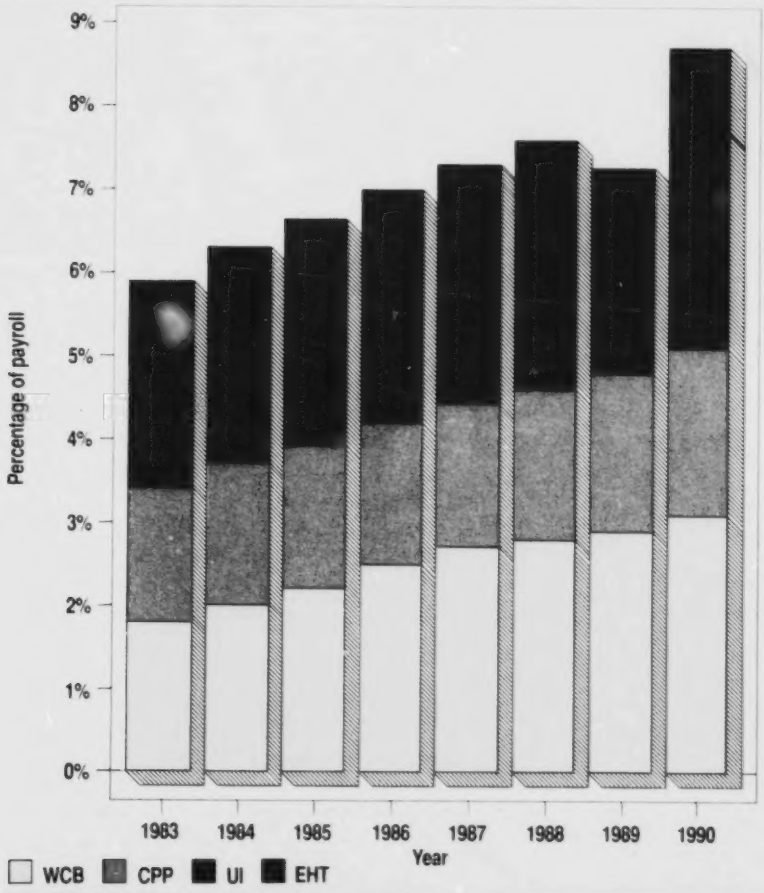
The average annual increase in payroll taxes from 1983 to 1990 will have been 11%. During 1983 to 1989, the annual growth rate was 8.8% for all payroll taxes, compared to 4.6% for wages and salaries, 4.7% for inflation and 5.5% for real Gross Provincial Product.

Table 5.2 demonstrates the extent to which the increases in WCB premiums have exceeded other payroll taxes, with an average annual increase of 13.7% a year between 1983 and 1990. WCB payments hit hardest in construction and manufacturing firms, which are estimated to pay $2,933 and $969 per employee in 1990 respectively, bringing their total payroll taxes per employee to $4,467 and $2,427 respectively.

Chart 5.2[5]

Component Taxes as a Percentage of Payroll[6]

Each payroll tax expressed as a percentage of total payroll (including payroll taxes), 1983-90



[5] Ibid.

[6] The payroll of small businesses is assumed to be based on an average wage equal to 86% of the average industrial wage for all workers. The average industrial wage for 1989 and 1990 is assumed to be the 1988 average industrial wage plus the appropriate increases in the Consumer Price Index.

Table 5.2

Average Annual Increases in Payroll Taxes, for Selected Industries

Average annual increases between 1983 and 1990, for a selection of industries, for each payroll tax and all payroll taxes

Type of tax	Industry				
	Garages	Rest-aurants	Manufac-turing	Constr-uction	All industries
	Average annual increase in taxes, 1983-90				
	%	%	%	%	%
Unemployment Insurance	5.7	5.9	6.0	6.0	6.0
Canada Pension Plan	8.4	8.5	8.4	9.7	8.3
Workers' Compensation	14.6	17.8	15.1	14.1	13.7
All payroll taxes	10.8	11.2	11.6	12.8	11.0
	Average payroll taxes per employee, 1983 and 1990				
1990 payroll taxes ($)	$1,998	$824	$2,427	$4,467	$2,258
1983 payroll taxes ($)	$972	$391	$1,125	$1,924	$1,091

PART II

The Economic Impact of Small Business

CHAPTER 6
SMALL BUSINESS IN ONTARIO

The 1981-82 recession marked the beginning of the small business revolution. Before that, big business dominated the minds of the economic planners, because they created jobs in multiples of a thousand, they made all the major investments and set the pace for small firms to follow. Since the recession, a strange thing happened. Small firms became the front-runners in job creation, steadily levering their importance from an equal share with big business at the end of the 1970s to a 90% share by 1987.

Ontario is, of course, the major centre for big business in Canada and has benefitted greatly from the powerful firms that have made their home in the province. But even in Ontario, small firms create 75% of the jobs and they are growing at seven times the rate of big firms. This is changing the face of the labour force rapidly. Small firms now employ 33% of total labour force, or 39% of the private-sector workers. Across Canada, small firms now even employ more than the big firms with more than 500 employees. Ontario's big firms still employ more than the small firms, but that gap is disappearing fast, too.

The small business phenomenon is driven by new ventures, which accounted for about 95% of the new jobs created in Ontario during 1978-87. This rush of entrepreneurs is giving the economy a different feel. More than 90% of the province's 300,000-odd firms employ fewer than 20 people and their average number of employees is 4.4. That makes for an awful lot of very small businesses. But these people are maturing as entrepreneurs and beginning to grow rapidly. The average size of Ontario's firms has fallen three percentage points in the past nine years, to 15 employees per firm. If governments and their agencies are excluded, the average firm size is only 13. (In the rest of Canada, it's nine.)

Ontario's big firms have, of course, continued to perform well — and far better than big firms elsewhere in the country. But their growth rates pale beside those of small firms.

Between 1978 and 1987, small firms in Ontario increased their employment by 69%, compared to 50% elsewhere in Canada and 10% in Ontarian big firms. Before the recession, one-third of the employment growth in small firms was in Ontario. Now it's 45%. And some of the growing small firms are remarkable. A small group of 1,500 firms that grew particularly fast accounted for 20% of all new jobs created in the province between 1978 and 1987. Not bad for 0.72% of the firms in the province. These people at the cutting edge hold our hopes for future employment.

The interesting thing is that it appears small firms are now setting the economic pace. When they are strong, the whole industry is strong — including big business. It appears that the more big businesses dominate an industry, the worse its employment growth rate is.

The big stars of job creation are personal and business services, community services and retail trade. These three together accounted for 60% of the new jobs in Ontario between 1978 and 1987. The power behind these are two stellar industries — services to business and health and welfare. The former is growing at 7% a year in Ontario, far outpacing any other industry. In small firms in this industry, employment is growing at 10% a year. Health and welfare also grew fast. Traditionally an industry dominated by big businesses like hospitals and welfare agencies, the employment action in health and welfare lately has been in small firms — nursing homes, medical clinics and so on. Employment growth for the whole industry during the nine years to 1987 was slightly more than 4% a year, but in small businesses, it was an impressive 8%.

These industries typify what's happening with small business. Even in the automobile industry, the home of giantism, small firms are doing very well, growing at 10% a year, while the big firms keep their employment about the same. Electrical and electronic products is another star in Ontario. While the big firms in this industry are actually shedding labour, the small firms are growing at 9% a year.

Ontario has always had strength in big business as the head office capital of Canada. It has also benefitted from having an overwhelming concentration of the employment in the booming auto industry, which has spread its benefits into

many parts of the manufacturing industries. The auto industry is volatile, however; greater long-term strength in Ontario may lie in industries like the media, printing, electronics, furniture, services to business, food and beverage and health and welfare. These are the industries where the growth has been strong and Ontario companies have highly developed expertise.

It is nonetheless a time of great change that is wrenching the economic fabric as we try to adjust to fit the new world. The turmoil in the world of employment is nothing short of astonishing. Not everyone understands the role of small business, but there is no denying it.

The Small Business[1] Fact Sheet[2]

All Employers	Ontario	Canada
Number of firms, 1986[3]		
Total	290,260	851,492
In small firms	284,066	840,694
Small firms as a % of total	97.9%	98.7%
Increase in number of firms, 1978-86		
Total	74,737	250,664
Small firms	73,887	249,033
Small firms as a % of total	98.9%	99.3%
Average growth rate p.a. for big firms	1.9%	2.1%
Average growth rate p.a. for small firms	3.8%	4.5%
Number of jobs[4], 1986		
Total (000s)	4,381.6	10,776.1
In small firms (000s)	1,456.7	3,904.1
Small firms as a % of total	33.2%	36.2%
Net gain in jobs, 1978-87		
Total gain (000s)	1,021.1	2,042.9
Total percentage increase over period	29%	22%
Gain in small firms (000s)	765.7	1,736.3
Percentage increase in small firms	69%	57%
Share of small firms in total	75%	85%
Average growth rate p.a. in big firms	1.1%	0.5%
Average growth rate p.a. in small firms	6%	5%
The big winners		
Share of total employment growth in:		
Personal and business services	28%	31%
Community services[5]	16%	21%
Retail trade	16%	19%
Small-business share of employment growth in:		
Personal and business services	75%	81%
Community services	42%	48%
Retail trade	73%	78%

[1] Small business is defined as those with fewer than 100 employees
[2] Source: Statistics Canada, Business Microdata Integration and Analysis and Small Business & Special Surveys
[3] The 1987 statistics are not accurate for the distribution, by size of firm, of employment or number of firms. The 1986 statistics are accurate in this regard, so they are used wherever size distributions are involved.
[4] Full-time equivalent jobs (part-time jobs count as a fraction of a full-time job)
[5] Community services includes health & welfare, education and non-profit cultural institutions

The Market[6] Sector	Ontario	Canada
Number of firms, 1986		
Total	262,889	773,479
In small firms	257,541	765,112
Small firms as a % of total	98.0%	98.9%
Increase in number of firms, 1978-86		
Total	67,204	227,028
Small firms	66,405	225,824
Small firms as a % of total	98.8%	99.5%
Average growth rate p.a. for big firms	2.0%	2.0%
Average growth rate p.a. for small firms	3.8%	4.5%
Number of jobs, 1986		
Total	3,415.8	8,059.0
In small firms	1,336.8	3,533.3
Small firms as a % of total	39.1%	43.8%
Net gain in jobs, 1978-87		
Total (000s)	739.7	1,418.6
Total percentage increase over period	26%	20%
In small firms (000s)	694.5	1,515.3
Percentage increase in small firms	68%	54%
Job gains in small firms as a % of total	93.9%	106.8%
Average growth rate p.a. in big firms	0.3%	-0.3%
Average growth rate p.a. in small firms	5.9%	4.9%

[6] The market sector is defined as all industries other than those funded by governments or their agencies. The funded sector includes public administration, health and welfare, education and religion.

The Self-Employed[7]	Ontario	Canada
Number of self-employed people, 1986		
Total (000s)	408	1,209
Percent who are women	24%	22%
Increase in self-employed, 1981-86		
Total (000s)	50	114
Percent increase	14%	10%
Increase in self-employed women	27%	27%
Increase in self-employed men	10%	6%
Women's share in total increase	42%	49%
Average earnings, 1986		
Self-employed (incorporated)	$37,461	$33,435
Self-employed (unincorporated)	$27,190	$24,313
Employees	$21,317	$20,272
Age distribution, 1986		
Average age:		
self-employed men	44.6	44.2
self-employed women	42.2	41.6
all self-employed	44.0	43.7
employees	36.4	36.0
Percent aged less than 25:		
self-employed	4%	4%
employees	23%	23%

[7] Source: 1986 census, Statistics Canada

CHAPTER 7
SMALL BUSINESS AND JOB CREATION

Between 1978 and 1987, small firms, which are defined as those employing fewer than 100 people, accounted for 75% of the jobs created in Ontario. The figure is even more impressive for Canada, where small firms were responsible for 85% of the increase in employment[1].

This phenomenon is now well-known, although it is still a relatively recent trend. It started during the recession of 1981-82, which precipitated a rash of corporate lay-offs across Canada in 1982 and 1983. Although these cutbacks were severe, reducing the employed population by more than 5%, they barely touched small firms, which dropped their employment by a scant 46,000. This represents less than 8% of the total jobs lost during those two years and only 1.4% of the total employment in small firms.

Before the recession, small firms accounted for about 55% of the jobs created in both Canada and Ontario. Immediately after the recession, in 1984 and 1985, they accounted for two-thirds of the new jobs in Ontario, three-quarters in Canada. And the trend is accelerating. The most recent year for which statistics are available is 1987 and it is now apparent that the trend toward small business is gathering steam. In 1986 and 1987, small firms accounted for almost 90% of the jobs created in Canada, and three-quarters in Ontario. As Chart 7.1 shows, the gap between the jobs created by small firms and big is widening quickly.

The movement toward small firms reflects the combined effects of several trends. Some of them are sociological, as people choose more and more to be their own bosses (see Chapters 2 and 3). Some are economic, as the economy shifts out of manufacturing and into services (see next chapter).

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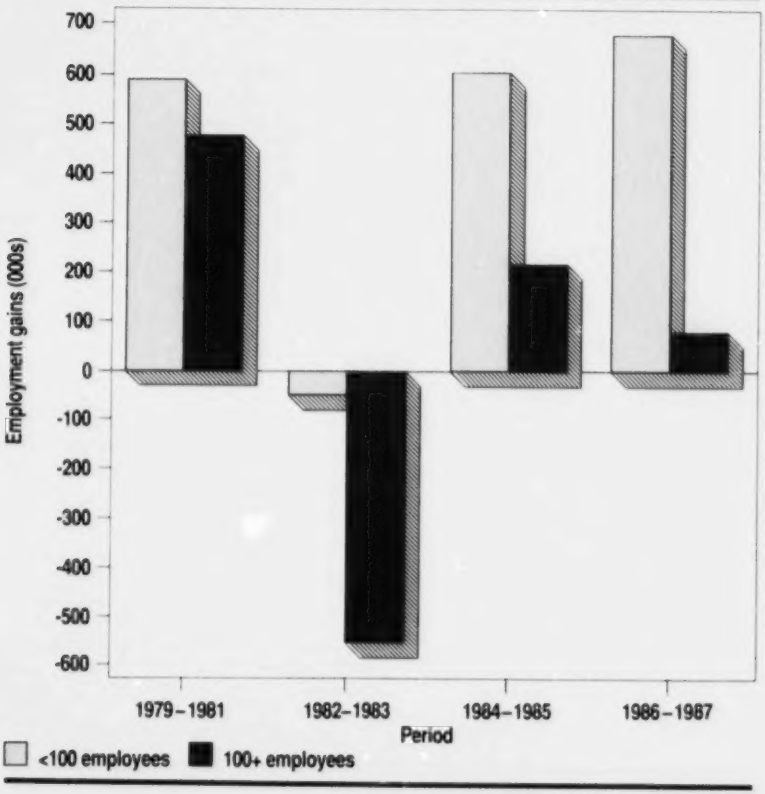
[1] All the statistics in this chapter come from Statistics Canada, through the *Business Microdata Integration and Analysis and Small Business & Special Surveys.*

Chart 7.1

The Growing Role of Small Firms in Job Creation

Gains in Canadian employment, by size of firms, in the four economic stages of the period 1979-87



This encourages small firms because manufacturing requires large investments to start a firm, while service firms can be started with very small investments. And some are corporate, as the large firms move to meet international competition by slimming down their overheads in a massive downsizing exercise that has not yet run its course.

It is tempting to suggest that the recent rash of corporate takeovers will reverse the downsizing trend, but it is more

likely that it will breed a second surge of downsizing a few years down the road. The latest available data is for 1987, which was too early to catch the effects of the takeover binge, but it's reasonable to assume that the big takeovers will not create many new jobs. Their most likely effect will be to accelerate the rise in the importance of small firms in creating new jobs. They will probably increase the average size of the biggest firms, without disturbing the overall distribution of employment between the different sizes of business.

The steady accumulation of new jobs in small firms is changing the distribution of employment rapidly. As Table 7.1 shows, between 1978 and 1986, small firms in Canada increased their share of total employment more than two and a half percentage points to 36.2% from 33.5%. The biggest firms, employing more than 500 people have seen their share of employment shrink a matching two and a half points to 48.4% from 50.9%. Mid-sized firms have fallen marginally to 15.4%.

Table 7.1
Where the Jobs Are, and Have Been in Canada

Distribution of employment, by firm size in 1978 and 1987, and distribution of the jobs created in the intervening years

Number of employees in the firms	Employment distribution 1978		Share of new jobs created 1979-87		Employment distribution 1986*	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	619.9	6.8	1,034.1	50.6	839.6	7.8
5 - 19	1,013.5	11.1	459.1	22.5	1,308.1	12.1
20 - 49	805.3	8.8	166.1	8.1	1,003.1	9.3
50 - 99	619.9	6.8	77.0	3.8	753.3	7.0
Small firms	**3,058.6**	**33.5**	**1,736.3**	**85.0**	**3,904.1**	**36.2**
100 - 499	1,431.5	15.6	153.2	7.5	1,660.2	15.4
500 or more	4,650.9	50.9	153.4	7.5	5,211.8	48.4
All firms	**9,141.0**	**100.0**	**2,042.9**	**100.0**	**10,776.1**	**100.0**

* Note. The new jobs created by firms with fewer than 5 employees during 1979-87 exceed the total jobs in that category in 1986. This is because many of them grew into bigger categories and were therefore no longer counted as having fewer than 5 employees. But they were in the smallest category in 1978 or when they started business during 1979-87.

The most important contribution to job creation has come from firms employing fewer than 20 people. More than half of all new jobs have come from firms employing fewer than five people, which accounted for 7.8% of total employment in 1986, compared with 6.8% in 1978.

The trends have been similar in Ontario, although Ontario has had, for many years, a much stronger presence in big firms than has the country as a whole. Nevertheless, as Table 7.2 shows, small firms have increased their share of total employment in Ontario by almost two and a half percentage points over the eight years to 1986.

Table 7.2
Where the Jobs Are, and Have Been in Ontario

Distribution of employment, by firm size in 1978 and 1987, and distribution of the jobs created in the intervening years

Number of employees in the firms	Employment distribution 1978		Share of new jobs created 1979-87		Employment distribution 1986*	
	(000s)	%	(000s)	%	(000s)	%
Fewer than 5	214.7	6.0	388.6	38.1	284.6	6.5
5 - 19	366.7	10.3	209.9	20.6	472.1	10.8
20 - 49	295.8	8.3	96.6	9.5	391.1	8.9
50 - 99	228.2	6.4	70.6	6.9	308.9	7.0
Small firms	**1,105.4**	**30.9**	**765.7**	**75.0**	**1,456.7**	**33.2**
100 - 499	531.6	14.9	102.3	10.0	679.4	15.5
500 or more	1,936.9	54.2	153.1	15.0	2,245.5	51.2
All firms	**3,573.9**	**100.0**	**1,021.1**	**100.0**	**4,381.6**	**100.0**

* Note. The new jobs created by firms with fewer than 5 employees during 1979-87 exceed the total jobs in that category in 1986. This is because many of them grew into bigger categories and were therefore no longer counted as having fewer than 5 employees. But they were in the smallest category in 1978 or when they started business during 1979-87.

Following established patterns, Ontario's big firms played an important part in job creation, accounting for 15% of the new jobs during 1978-87, which is twice the rate for Canada. Even this understates the situation, however, because Ontario has a disproportionate share of big firms. In fact, Ontario accounted for 100% of the growth in employment in

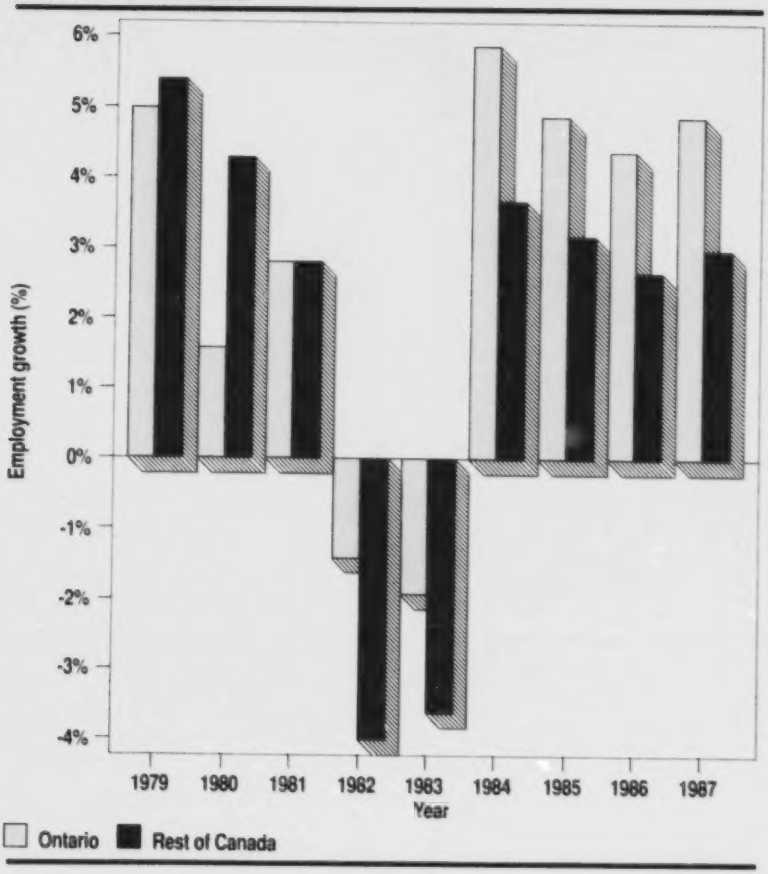
firms employing more than 500 people in Canada. In the rest of the country, employment levels in these firms were the same in 1986 as they were as in 1978.

Ontario's strength was not confined to the big firms, however. The larger small firms and the mid-sized firms have also done appreciably better in Ontario than in the rest of the country. Firms employing 20 to 499 people accounted for 26% of the job creation in Ontario, compared with 19% in Canada. The quid pro quo was, of course, the smallest firms (employing fewer than five people), which accounted for only 38% of job creation in Ontario, compared to more than 50% in Canada. (If Ontario is excluded, these firms accounted for 63% of the new jobs during the same period in the rest of Canada.) This strength in the mid-sized firms has meant that, even though Ontario's big firms made a bigger contribution to job creation, their share of total employment fell faster than it did in Canada. Their share of employment fell three percentage points over the period to 51.2%.

All this reflects the powerful growth that has lifted Ontario's economy to dominant heights within Canada since the recession. Before 1982, Ontario had lagged the rest of the country by a significant margin for several years. After 1982, as Chart 7.2 shows, annual growth in employment has never been less than 1.7 percentage points higher in Ontario than in the rest of the country.

Overall, employment grew 29% between 1978 and 1987 in Ontario, which is the equivalent of an annual average growth rate of 2.8%. The rest of Canada lagged far behind with a total increase of 18%, equivalent to an annual rate of 1.9%. The larger firms, of course, grew more slowly than this, but the gap between Ontario's performance and that of the rest of the country was even wider among big firms than among small ones. Mid-sized firms, employing 100 to 499 people, grew by 19% in Ontario and 6% in the rest of the country, while the biggest firms (employing more than 500 people) grew 8% in Ontario during these nine years, while they did not grow at all in the rest of Canada. (Chart 7.3)

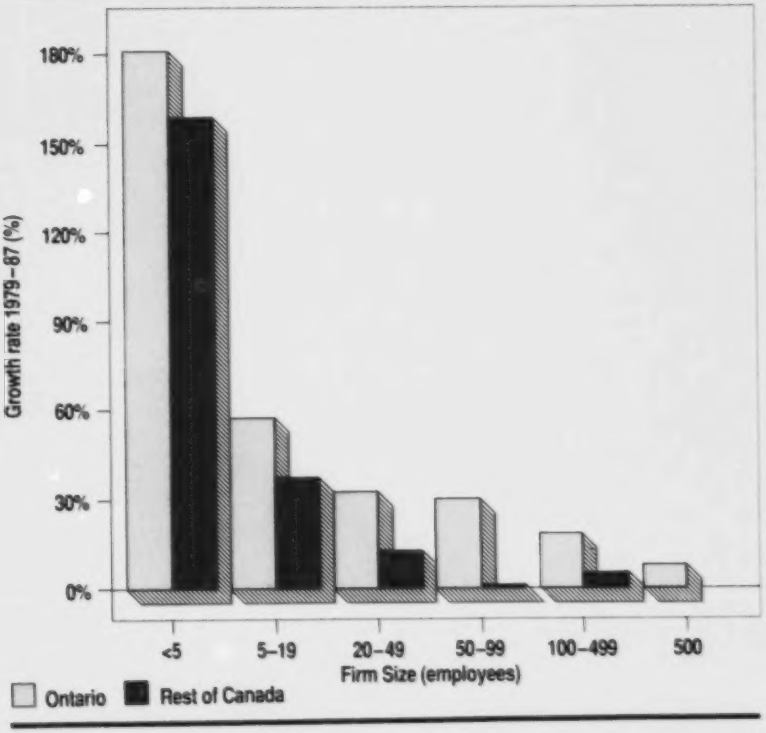
Chart 7.2
Comparison of Employment Growth in Ontario and the Rest of Canada



Because of Ontario's strong overall growth, however, this significant imbalance in the growth of larger firms was not at the expense of small firms. Small firms in Ontario increased their employment by 69% during the nine-year period, which is the equivalent of an annual rate of 6%. The rest of the country increased employment in its small firms by 50%, or 4.6% a year.

Chart 7.3
The Smallest Firms Grow Fastest

Growth rates during 1979-87, by size of firm, for Ontario and the rest of Canada



The result is that even Ontario has become more small-business minded. With 36% of the small-firm employment in Canada in 1978, it generated 44% of the new jobs in small firms during 1978-87. Table 7.3 shows how Ontario has increased its share of small-business jobs since the recession, just when small firms all over Canada were increasing their share of total job creation. At the same time, by 1986-87, Ontario's big firms were creating jobs while the rest of Canada's were diminishing their jobs in firms employing more than 500 people. By 1986, Ontario had raised its share of Canadian employment to 41% from 39% in 1978.

Table 7.3
The Job Powerhouse in Ontario

Ontario's share of Canadian job creation in small firms and other firms

Period	New jobs created in: small* firms		big* firms		Ontario's share of total job creation in firms that are	
	Ontario	Rest of Canada	Ontario	Rest of Canada	small*	big*
					%	%
1979-81	188.4	405.8	162.0	320.9	32	34
1982-83	15.0	-61.0	-145.5	-405.9	n/a	n/a
1984-85	271.1	335.3	150.8	72.6	45	68
1986-87	300.9	373.4	96.3	-11.4	45	113
Total**	765.7	970.6	255.4	51.2	44	83

* Small firms are those with fewer than 100 employees
** Figures may not add up due to changing classifications

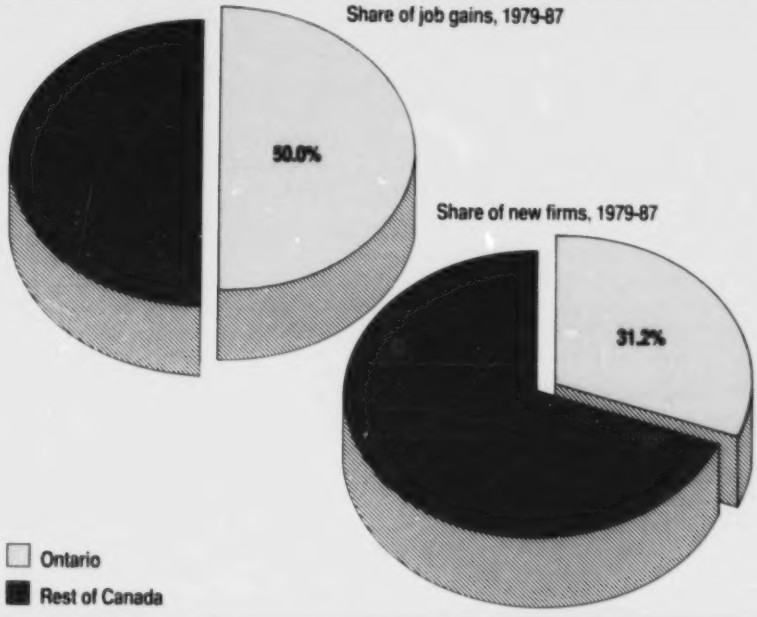
The major force behind the strong performance of small firms has been, of course, new ventures (see The Start-up Revolution, Chapter 2). One indication of this is that the number of firms is growing more quickly than the number of employees. In Canada, the number of firms in 1987 was 47% more than in 1978. Over the same period, employment grew 18%. As Chart 7.4 illustrates, the divergence was not as marked in Ontario, where the number of firms grew 41% over the same period, while employment advanced by 28%.

This is a sign of a maturing entrepreneurial economy. In a less mature entrepreneurial economy, the growth in jobs has to come from new entrepreneurs, who start and lose businesses in quick succession until they build up an adequate local infrastructure for business and personal development. As the new entrepreneurs acquire momentum, they make fewer mistakes and they create more lasting jobs — and employment growth comes with fewer additional firms. This phenomenon is also behind the strength of the mid-sized firms in Ontario, which can prosper only when there is an infrastructure to nurture the entrepreneurs capable of leading small firms through the transition to mid-sized firms.

Chart 7.4

Ontario Needs Fewer Firms to Grow More

Ontario's share of growth in the number of firms and in the number of jobs during 1978-87



Still, new businesses are being formed at a torrid pace, having raised the total number of businesses in Canada to 851,492 in 1986 from 600,828 in 1978. Small firms raised their share of the total number of firms by a very small amount, to 98.7% from 98.5%. However, there was an important shift within the ranks of small firms. Those employing fewer than five people raised their share of total firms to 75.9% from 74.4% between 1978 and 1986, while the shares of the larger small firms all dropped.

Ontario was a bit different. Small firms increased their share of total firms, by a similarly small amount, to 97.9% in 1986, but the distribution was broader. The rate of growth in the number of firms was uniformly between 32% and 35% for all the categories of small business, so that the larger small firms all maintained their share of the total number of firms. This again demonstrates the strength of the maturing small businesses in Ontario and the heavy reliance elsewhere in Canada on start-ups with fewer than five employees.

As Table 7.4 shows, the effect of such a rapid increase in the number of small firms is inevitably to reduce the average number of employees per firm in the whole economy.

Table 7.4
The Downsizing Effect

Average number of employees per firm, by firm size, Canada, 1978 and 1986

	Average employees per firm in Canada	
Firm size	**1978**	**1986**
Fewer than 5	1.4	1.3
5 to 19	9.3	8.8
20-49	29.8	28.8
50-99	67.6	66.1
100-499	197.4	192.5
More than 500	2,428.7	2,396.2
Total	15.2	12.7

These trends become still more clear when the distinction is made between the public and private sectors. In analyzing the private and public sectors, it is more meaningful to group public administration with community services, which include education, health and welfare and religion. Some of these services are provided in a market environment, in competition with other firms, but almost all of them are funded by governments and therefore not subject to direct market forces. These organizations are called the funded sector, and the balance are called the market sector.

For all sizes of firms in Canada, the average number of employees in the market sector fell from 12.8 to 10.4 (down by 19%). In the funded sector, the average fell from 39.0 to 34.8

(down 11%). In Ontario, however, the drops in average size were more moderate. In the market sector, the average fell from 14.7 to 13.0 (down 12%), while organizations in the funded sector didn't change between 1978 and 1986, sticking at 35. In the rest of Canada, excluding Ontario, the average organization size in the funded sector fell 16% from 41.2 to 34.6.

It is possible that the funded sector is more sensitive to the market sector outside Ontario and Quebec, because the other eight provincial economies rely on fewer industries for their industrial base. When those industries are weak, the funded sector tends to follow suit and pull in its belt. In Ontario and Quebec, on the other hand, the provincial governments feel more able to act as countercyclical employers. The downsizing push has also been given an added impetus in the three most westerly provinces, which have been more aggressive in privatizing their crown agencies than the central and eastern provinces.

As for the market sector, the real strength of Ontario lies in its wide range of firms employing 500 to 1,500 people. These firms are more resilient than the very large firms, which are liable to make large cuts in employment when times are difficult (which includes being taken over).

Table 7.5 demonstrates the differences between the market and funded sectors in Canada. Naturally, small firms are much less important in the funded than the market sector. Only 14% of the funded-sector employees are in small firms, compared to 44% in the market sector. And small firms account for only a third of the new jobs in the funded sector, while they account for 107% in the market sector — firms employing more than 500 people lost the equivalent of 10% of all the new jobs created during 1978 to 1987. The resulting shift in the distribution of the labour force by size of firm has raised the share of small firms in the market sector to 44% — which is significantly more than the 40% share of firms employing more than 500 people. This is an exact reversal of the situation in 1978.

The trends are similar in Ontario, although, as always, the large firms are a greater presence. Small firms in the market sector in Ontario are still outnumbered by the firms employing more than 500 people — 39% to 44%, which is

Table 7.5

The Difference Between the Market and Funded Sectors, Canada

Distribution of employment in 1978 and 1986, and of the job gains during 1979-87, by firm size, for the market and funded sectors

Size of firm (employees)	1978 employment distribution for		1979-87 shares of job gains in		1986 employment distribution for	
	Market	Funded	Market	Funded	Market	Funded
	%	%	%	%	%	%
Fewer than 20	21.5	5.7	93.6	26.5	24.2	7.2
20 - 99	18.3	6.6	13.2	8.9	19.6	6.4
Small firms	**39.8**	**12.3**	**106.8**	**35.4**	**43.8**	**13.6**
100 - 499	16.1	14.4	4.0	15.6	16.2	13.1
500 or more	44.1	73.3	-10.8	49.0	40.0	73.3
All firms	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

close to the situation that existed for Canada in 1978. This means that in the rest of Canada, small firms account for a much larger portion of total market-sector employment — 47%, compared to 37% for firms employing more than 500 people. With small firms supplying almost half the total jobs in the market sector, the rest of Canada has come to rely on small business to a remarkable degree.

Table 7.6

The Difference Between the Market and Funded Sectors, Ontario

Distribution of employment in 1978 and 1986, and of the job gains during 1979-87, by firm size, for the market and funded sectors

Size of firm (employees)	1978 employment distribution for		1979-87 shares of job gains in		1986 employment distribution for	
	Market	Funded	Market	Funded	Market	Funded
	%	%	%	%	%	%
Fewer than 20	18.7	6.2	73.5	19.5	20.1	7.3
20 - 99	16.8	5.9	20.4	5.8	19.0	5.1
Small firms	**35.5**	**12.1**	**93.9**	**25.3**	**39.1**	**12.4**
100 - 499	15.9	10.7	10.3	9.2	17.3	9.1
500 or more	48.6	77.2	-4.2	65.5	43.6	78.5
All firms	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

CHAPTER 8
WINNING AND LOSING INDUSTRIES — AND THE POWER OF SMALL BUSINESS

The shift of the labour force out of goods-producing industries and into services has been progressing for many years now. It started with the mechanization of farm equipment at the beginning of the century, which resulted in the flight of farm workers to the cities. Between 1931 and 1986, the farm population in Canada fell by three quarters[1]. This process has now stabilized, with agricultural employment running at about 4% of the labour force. In 1987, the industry's employment even rose slightly, so it is unlikely it will shift dramatically in the future.

After World War II, the goods-producing industries made something of a comeback. Although the decline of agricultural employment continued, there was a resurgence of goods-producing industries, because construction and manufacturing employment grew strongly as the Canadian economy matured. In the past two decades, however, manufacturing employment has stagnated at around two million (albeit with some sharp cyclical variations), while the labour force has grown by 50%, so manufacturing's share of total employment has dropped significantly. As Chart 8.1 shows, the effect has been to reduce the share of employment of the goods-producing industries dramatically since 1960.

Since 1960, the goods-producing sectors have lost more than 14 percentage points in their share of the total labour force, the biggest part of it going to market services, which have picked up seven points. Governments and their agencies at all levels have also come to play a larger role as employers, picking up more than four percentage points in their share of employment.

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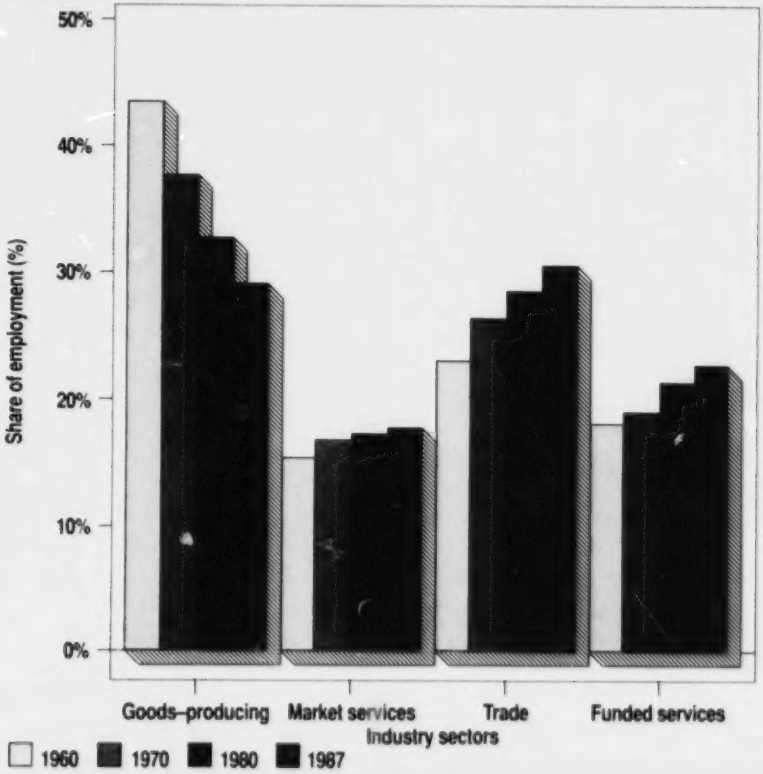
[1] Canadian censuses

Chart 8.1[2]

The Sectors That Are Gaining — and Losing

Share of the Canadian labour force employed in the four major sectors* of the economy in 1960, 1970, 1980 and 1987



* Goods-producing industries include: Primary, Mining, Manufacturing and Construction. Trade includes Retail and Wholesale Trade. Market services include Transportation, Communications & other Utilities, Finance, Insurance and Real Estate and Personal and Business services. Funded services include Public Administration and Community services.

[2] Statistics Canada

In the nine years to 1987, the process did not run as rapidly as in the previous two decades, with goods-producing industries losing 3.8 percentage points, compared to 5.7 in the 1960s and 5.0 in the 1970s. Nevertheless, the shrinkage continues to be a powerful phenomenon, as the goods-producing industries are winning a very small share of the new jobs created, as Chart 8.2 shows.

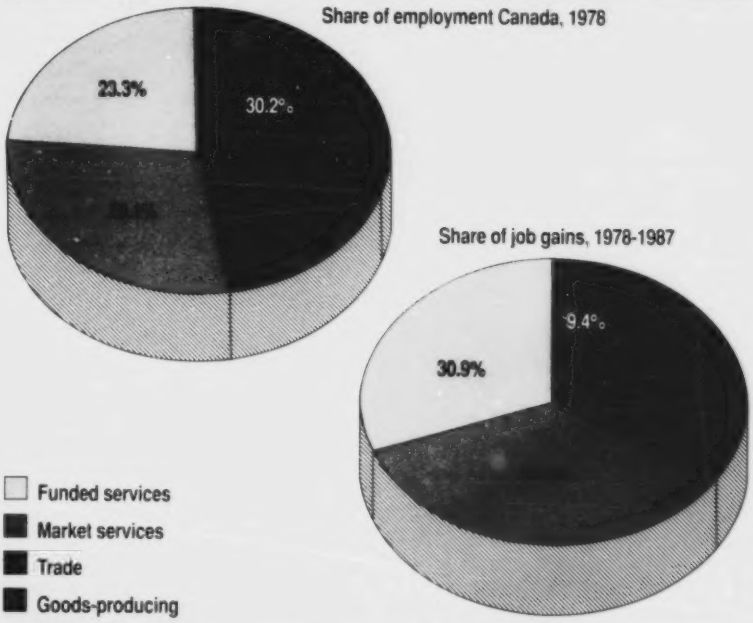
The goods-producing industries are generally more sensitive to economic cycles than services. After the most recent recession, which precipitated a drastic cutback in employment during 1982-83, the goods-producing industries reduced their labour force by 14% while the rest of the industries reduced theirs by 4%. Government employment barely changed. In the subsequent boom, the goods-producing industries have grown at close to the same rate as the economy as a whole, including a growth of 3.4% in 1987, when employment in the whole economy grew 3.8%. However, although these industries appear to have stemmed their relative loss of employment during boom times, it remains to be seen if the next recession will once again affect them more than the service side of the economy.

The picture for the goods-producing industries would have been even worse had it not been for Ontario, in which a long construction boom, a prosperous printing and publishing industry and a resurgent auto industry contributed to the goods-producing sector's creating 16% of new jobs, 9% of it from manufacturing. As Table 8.1 shows, however, the rest of Canada didn't do as well. Its goods-producing industries accounted for less than 3% of new jobs, all of them in the primary industries. In absolute terms, the labour force in the four goods-producing industries grew by 162,000 in Ontario during 1978-87, compared to 28,000 in the rest of Canada. Ontario's goods-producing sector now has 30% of its total labour force, compared to the rest of Canada's 24%.

Chart 8.2[3]

Shrinking the Goods-Producing Sector

Share of each sector of total employment in Canada, 1978, and share of new jobs during 1978-87



*See previous chart for a definition of the industry groupings.

[1] Statistics Canada, Business Microdata Integration and Analysis and Small Business and Special Surveys. All data in this chapter are from this source unless otherwise noted.

Table 8.1

Industry Shares of Employment and New Jobs

Distribution, by industry groups, of 1978 employment and of new jobs generated during 1978-87

Industry*	Distribution, by industry, of Total employment, 1978			New jobs, 1978-87		
	Ontario	Rest of Canada	All Canada	Ontario	Rest of Canada	All Canada
	%	%	%	%	%	%
Primary	0.7	1.1	0.9	0.8	2.9	1.9
Mining	1.4	2.3	2.0	-0.3	1.7	0.7
Manufacturing	26.9	19.4	22.4	8.6	-3.2	2.7
Construction	4.5	5.2	4.9	6.7	1.3	4.0
T, C & U	9.7	9.4	9.5	-4.6	-3.1	-3.8
Wholesale trade	5.3	5.7	5.6	6.0	4.3	5.1
Retail trade	11.9	11.8	11.8	16.2	21.8	19.0
F, I & RE	6.5	6.0	6.2	9.5	5.6	7.5
Community services	12.8	15.1	14.2	15.6	25.8	20.7
P & B services	13.3	13.3	13.3	28.2	34.1	31.2
Government	6.8	10.4	9.0	12.0	7.8	9.9
Non-classified	0.1	0.3	0.2	1.2	1.0	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* The abbreviated industries are: Transportation, Communications and other Utilities; Finance, Insurance and Real Estate; and Personal and Business services. Government includes all three levels of government, but not health & welfare, education and religion, which are included in community services.

Whatever happens to the goods-producing industries, the real job-creating machines are all in services — personal and business services, community services and retail trade. These three pillars of the economy accounted for 39% of total employment in 1978, yet they created 71% of the jobs during 1978-87, as Table 8.1 shows. If Ontario is excluded, the rest of Canada showed an amazing dependence on these three industries, which accounted for 82% of the jobs created during the period.

The three pillars were not quite as dominant in Ontario, where they accounted for 60% of the new jobs on a base of 38% of total employment in 1978. But that is a relative number, which does not reflect the performance of the three pillars in Ontario as much as the stronger overall growth in

Ontario, particularly in the goods-producing sector. As Table 8.2 shows, Ontario's total employment grew by 29% during 1978-87, compared to the rest of Canada's 18%. The three giant job-creators in Ontario all grew at significantly faster rates in Ontario than in the rest of Canada. In the rest of Canada, with its narrower industrial base, however, the three pillars assumed a much greater role than they did in Ontario.

Table 8.2
Small Firms Outgrow Big Firms by a Wide Margin

Employment growth rates, for small firms employing fewer than 100 people and big firms employing more than 100, for Ontario and the rest of Canada, 1978-87

	Employment growth rate, 1978-87, for firms employing					
	fewer than 100		more than 100		all firms	
Industry*	Ontario %	Rest of Canada %	Ontario %	Rest of Canada %	Ontario %	Rest of Canada %
Primary	35.0	57.3	31.6	-16.4	34.7	48.5
Mining	122.9	139.6	-19.5	-12.1	-5.9	13.6
Manufacturing	66.6	35.7	-5.3	-16.3	9.2	-3.0
Construction	65.9	25.8	-5.1	-41.9	43.1	4.6
T, C & U	66.2	37.2	-25.9	-15.7	-13.5	-6.0
Wholesale trade	46.1	21.3	12.3	1.4	32.2	13.6
Retail trade	57.4	49.4	22.8	15.8	38.9	34.0
F, I & RE	89.5	45.1	24.2	4.3	41.6	17.1
Community services	92.4	93.2	24.0	18.2	34.7	31.4
P & B services	80.6	65.4	34.5	17.2	60.4	47.1
Government	37.6	43.7	51.2	12.1	50.5	13.7
Total	**69.3**	**49.7**	**10.3**	**1.4**	**28.6**	**18.4**

* See note to Table 8.1

Ontario experienced much more rapid growth than the rest of Canada in one other area, the funded sector, which grew 50% in Ontario during 1978-87, compared with 14% elsewhere. This growth was almost entirely in the federal civil service, in which employment grew 129%, compared to 11% at the provincial level and 37% at the local level. In the rest of Canada, the civil service grew 17% at the federal level, 7% provincially and 19% locally.

Apart from the funded sector, however, the key to employment growth clearly lies in small firms. The most

spectacular growth rates came from mining, but employment in mining is such a small part of total employment that the surge of small firms in this sector did not have a major impact. The most remarkable trend is the strong growth in small firms in community services, which is traditionally dominated by large organizations in the health and welfare and educational fields. This was the second fastest growing sector among small firms, and, although less than 20% of 1978 employment in community services was in small firms, the new jobs created by small firms matched those created by the big firms in the industry. Two-thirds of the growth in this industry was in health and welfare, where the explosion of small nursing homes, social services and independent medical centres has fueled a great deal of the job creation.

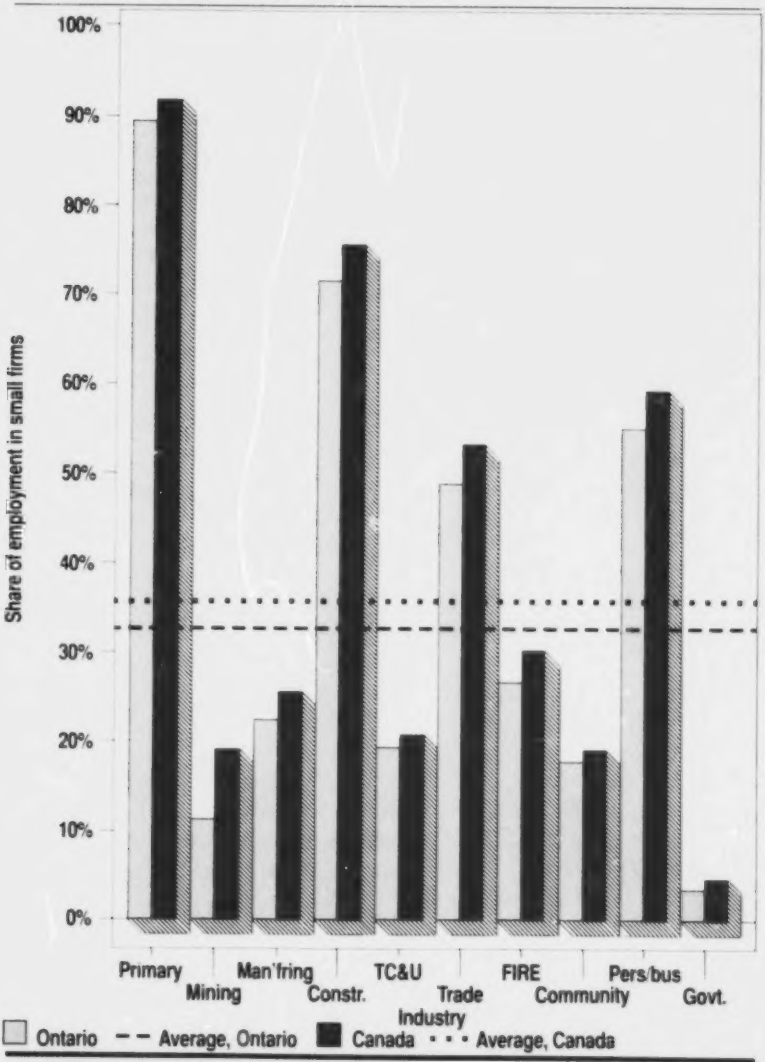
The real power, however, comes from personal and business services, where firms with fewer than 100 employees grew at 71% during the period in Canada (81% in Ontario and 65% in the rest of Canada). It is reasonable to postulate that these small firms are doing well because of the growth of franchising and because small firms can offer more personalized service than most big firms, so they prosper in service-oriented industries. However, there is no ready explanation why small firms grew so strongly in the goods-producing sector, because it is mostly dominated by big firms, which were cutting back fiercely for most of 1978-87. A priori, one would expect small firms to suffer when big firms retrench. This raises the question of who sets the pace in economic expansions. It would appear to be incorrect to assume that small firms perform well only in industries that are dominated by small firms.

As Chart 8.3 shows, there are really only four industries which can reasonably be described as being dominated by small firms, because they account for more than half the total employment — primary, construction, trade and personal and business services. In all the other industries, big firms employ more than 70% of the labour force. Ontario has a consistently lower proportion of small firms in every industry, but the pattern is the same.

Chart 8.3

The Industries That Small Firms Prefer

Share of total employment in each industry* held by firms with fewer than 100 employees, Ontario and Canada, 1986



* See note to Table 8.1

This is reflected in the employment distribution between industries in small and big firms. As Table 8.3 shows, employment in big firms is heavily concentrated in community services, manufacturing and government, while small-firm employment is heavily concentrated in retail trade and personal and business services. Manufacturing is also strong in small firms, although still way behind the concentration in big businesses.

The patterns in small firms are similar in Ontario and the rest of the country, but in big businesses, Ontario has a much heavier relative weighting in manufacturing and a much lighter one in funded services. Significantly, small firms in manufacturing have an important share of the labour force in Ontario, where manufacturing is doing well, while small manufacturing firms employ a less important share of the labour force in the rest of Canada, where the industry is declining. In the industries that have performed well in both Ontario and the rest of the country, small firms have a comparably important share of the labour force in both.

It appears that a strong small business presence signals a strong economic performance. Chart 8.4 demonstrates the power of this phenomenon for goods-producing industries. As the big-business share of employment rises, employment growth declines. The only industry to buck this trend is mining and even that is a reflection of a spectacular performance by small firms. Mining includes the oil and gas industry, which was the major force behind the 23% growth in the industry in 1979-80, almost all of it from small firms in Alberta. Then the oil and gas industry collapsed and employment in the mining sector declined by 9% between 1981 and 1987. If performance were measured between 1981-87, mining (with its dominant big business presence) would indeed have had the worst performance, with a 12% drop in employment, the worst of the four industries after manufacturing's drop of 2.8%.

The most surprising aspect of this phenomenon is that big firms also tend to perform better when there is a good supply of small firms in their industry. In the goods-producing sector, employment in the big firms declined in all four industries, but their relative performance was tied to the level of small business employment too. Primary had the smallest decline

Table 8.3

Industrial Distribution of Jobs in Small and Big Firms, 1986

The distribution of employment, by industry, for firms employing fewer than 100 people and those employing more than 100

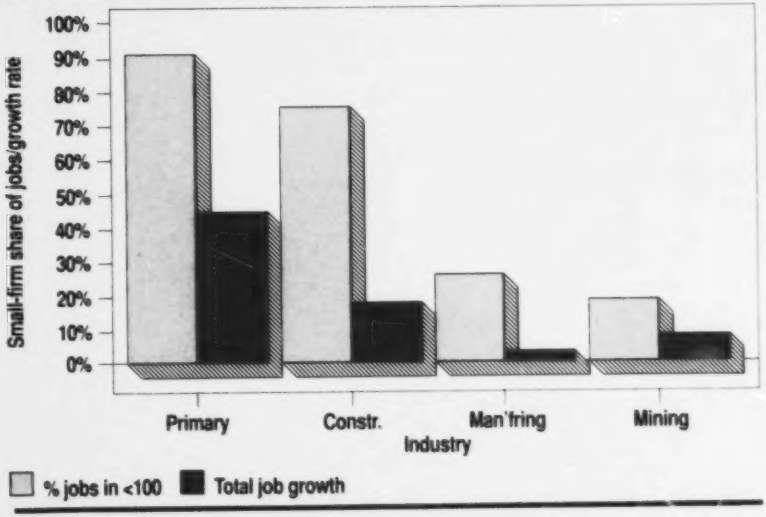
Industry*	Distribution of jobs in small firms		in big firms		in all firms	
	Ontario %	Rest of Canada %	Ontario %	Rest of Canada %	Ontario %	Rest of Canada %
Primary	1.8	3.1	0.1	0.2	0.7	1.3
Mining	0.4	1.3	1.4	2.9	1.0	2.3
Manufacturing	16.6	12.3	27.2	18.2	23.8	15.9
Construction	10.0	9.0	2.0	1.5	4.6	4.4
Goods-producing	***28.8***	***25.7***	***30.7***	***22.8***	***30.1***	***23.9***
Wholesale trade	9.2	8.5	3.4	3.4	5.3	5.4
Retail trade	16.9	19.1	10.2	9.8	12.4	13.3
Trade	***26.1***	***27.6***	***13.6***	***13.2***	***17.7***	***18.7***
T, C & U	4.0	4.4	8.1	9.8	6.8	7.8
F, I & RE	5.6	5.1	7.8	6.3	7.1	5.8
P & B services	26.6	26.2	10.7	9.9	16.2	16.1
Market services	***36.2***	***35.7***	***26.8***	***26.0***	***30.0***	***29.7***
Community services	7.3	8.9	16.9	22.0	13.7	17.0
Government	0.9	1.4	12.0	16.0	8.3	10.4
Funded services	***8.2***	***10.3***	***28.9***	***38.0***	***22.0***	***27.4***
Non classified	0.7	0.7	0.0	0.0	0.2	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* See note to Table 8.1

in big firms, followed by manufacturing and mines. Only construction bucked the trend, losing 29% of the employment in big firms — and that was largely thanks to changes in the structure of the industry, which shifted toward sub-contracting in non-union companies.

Chart 8.4
Small Firms Attract Growth in the Goods-Producing Sector

Comparison of rate employment growth, 1978-87 and percentage of employment in small firms, 1986, by industry, Canada



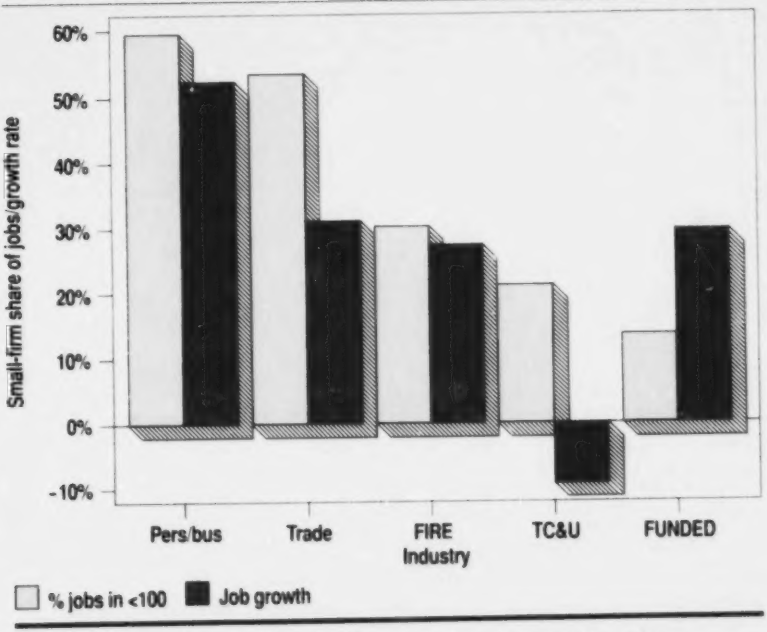
Ontario has a slightly different pattern. Small businesses, of course, represent a smaller share of employment in all industries in Ontario compared to the rest of Canada, particularly in mining, where it is 11.7% in Ontario and 21.2% in the rest of Canada. Ontario also had much stronger growth in construction, which grew fastest among the goods-producing industries, increasing employment by 43% during 1978-87, followed by primary with 35%.

In the service industries, the same phenomenon exists, as Chart 8.5 shows. The higher the small business presence in an industry, the higher its employment growth. Funded

services did not follow this trend, of course, because they must react to forces other than the market.

Chart 8.5
Small Firms Power Employment Growth in Services, Too

Comparison of rate employment growth, 1978-87 and percentage of employment in small firms, 1986, by industry, Canada



Big firms demonstrate the same tendency to perform better in small-business dominated service industries as they do in the goods producing sector. This may be a reflection of the greater resilience of industries with a large base of small firms, particularly in the downsizing of successful big firms, which contract out many services they previously performed in-house. Or it could be an indication that small firms are succeeding most in the healthiest industries. Whatever the reason, a strong small business base appears to help big firms too.

Ontario, once again, is a little different. The trend is still

there, but a strong performance in finance, insurance and real estate made that industry grow at 42%, slightly better than the 37% in trade. Ontario has benefitted from this industry to a far greater degree than the rest of Canada, where employment grew by only 17%, consistent with the trend for growth to follow small business concentrations.

When the contributions of each size category in each industry is analyzed, the importance of the three pillars stands out. As Table 8.4 shows, these industries together account for more than half of all new jobs in firms employing fewer than 100 people. They also account for three-quarters of the growth in mid-sized firms, and more than 90% in the biggest firms. 30% of all new jobs in Ontario during 1978-87 came from firms employing fewer than 20 people in personal business services, community services and retail trade.

The other important contribution came from small firms in manufacturing, which accounted for one-eighth of the total new jobs created. Big manufacturing firms in Ontario lost the equivalent of 4.6% of the new jobs and mid-sized firms made a small contribution to jobs creation.

In the rest of Canada, the imbalances are even more startling. As Table 8.5 shows, half of all the new jobs were created by firms in the three pillars that employ fewer than 20 people. In mid-sized firms, the three industries accounted for 10% of all new jobs, while the other industries combined to lose the equivalent of 5% of new jobs. In the biggest firms, their gains in employment were 12 5% of total gains, while the other industries together lost the equivalent of 12.5% of the total jobs created.

Small firms in personal and business services accounted for almost 30% of total job creation in the rest of Canada. And small firms in manufacturing, despite a small base of only 4.7% of total employment in 1986, contributed an impressive 9.7% of the total gains in employment. Large manufacturing firms, with a base of 11.2% of total employment in 1986, lost the equivalent of 12.8% of the jobs created, leaving manufacturing in all firms in the rest of Canada with a net loss of 3.2% of the jobs created. In the rest of Canada, small firms accounted for 95% of all new jobs. Firms employing fewer than 20 people accounted for 87.5%.

Table 8.4

Where New Jobs Come From, by Industry and Size, Ontario

Percentage contribution to total job creation by each size of each industry, 1978-87

Industry*	Contribution to job creation by firm size					
	0-19	20-99	Small firms	100-499	500 +	Total
	%	%	%	%	%	%
Primary	0.7	0.1	0.8	0.0	0.0	0.8
Mining	0.4	0.1	0.6	0.4	-1.2	-0.3
Manufacturing	9.3	3.3	12.6	0.6	-4.6	8.6
Construction	6.2	0.7	7.0	0.1	-0.3	6.7
Goods-producing	***16.7***	***4.3***	***21.0***	***1.1***	***-6.2***	***15.9***
Wholesale trade	4.6	0.5	5.1	0.6	0.3	6.0
Retail trade	8.8	2.3	11.2	1.8	3.2	16.2
Trade	***13.4***	***2.8***	***16.2***	***2.5***	***3.5***	***22.2***
T, C & U	2.1	0.9	3.0	0.1	-7.8	-4.6
F, I & RE	3.9	1.5	5.4	0.6	3.4	9.5
P & B services	16.2	5.0	21.2	3.2	3.9	28.2
Market services	***22.3***	***7.4***	***29.7***	***3.9***	***-0.4***	***33.1***
Community services	5.0	1.5	6.5	2.3	6.8	15.6
Government	0.4	0.1	0.5	0.3	11.2	12.0
Funded services	***5.4***	***1.6***	***7.0***	***2.5***	***18.1***	***27.6***
Non-classified	0.9	0.3	1.2	0.0	0.0	1.2
Total	**58.6**	**16.4**	**75.0**	**10.0**	**15.0**	**100.0**

*See note to Table 8.1

Table 8.5

Where New Jobs Come From, by Industry and Size, the Rest of Canada

Percentage contribution to total job creation by each size of each industry, 1978-87

Industry*	Size of firm by number of employees					
	0-19	20-99	Small firms	100-499	500 +	Total
	%	%	%	%	%	%
Primary	3.3	-0.2	3.0	-0.1	0.0	2.9
Mining	2.0	1.0	3.0	0.0	-1.3	1.7
Manufacturing	10.1	-0.5	9.7	-2.7	-10.1	-3.2
Construction	7.0	-2.0	5.0	-1.3	-2.4	1.3
Goods-producing	***22.4***	***-1.7***	***20.6***	***-4.1***	***-13.8***	***2.7***
Wholesale trade	5.6	-1.5	4.1	-0.7	0.9	4.3
Retail trade	15.3	1.9	17.2	0.6	4.0	21.8
Trade	***20.9***	***0.4***	***21.3***	***-0.1***	***4.9***	***26.1***
T, C & U	3.7	-0.2	3.5	-0.4	-6.2	-3.1
F, I & RE	4.1	0.5	4.6	0.4	0.5	5.6
P & B services	24.9	4.5	29.4	2.2	2.5	34.1
Market services	***32.7***	***4.8***	***37.5***	***2.2***	***-3.1***	***36.6***
Community services	10.0	3.5	13.5	6.5	5.8	25.8
Government	0.9	0.4	1.2	0.5	6.1	7.8
Funded services	***10.8***	***3.9***	***14.7***	***7.0***	***11.9***	***33.6***
Non-classified	0.7	0.2	0.9	0.1	0.0	1.0
Total	**87.5**	**7.4**	**95.0**	**5.0**	**0.0**	**100.0**

*See note to Table 8.1

Manufacturing

The manufacturing industries that have grown fastest in Ontario have been furniture and fixtures, printing and publishing, the wood industries and rubber and plastics, all of which grew more than 27% in the nine years 1978-87. As Table 8.6 shows, the next best industry was transportation equipment (mainly the automobile industry), with 12% growth. However, the auto industry accounts for 15% of all manufacturing employment in Ontario, so its growth rate packs the biggest punch in terms of actual new jobs.

Table 8.6

The Manufacturers that Grew the Most

Distribution of employment in 1986 and growth rates, for small and big firms in manufacturing industries, during 1978-87. Ranked by growth rate.

Industry	Share of 1986 employment	Employment growth 1978-87		
		Small firms	Big firms	All firms
	%	%	%	%
Furniture & fixtures	3.6	75.4	14.1	42.9
Printing & publishing	7.8	56.4	20.0	31.8
Wood industries	2.9	63.8	-3.5	30.4
Rubber and plastics	5.4	136.4	0.3	27.2
Transportation equipment	15.3	134.6	5.0	12.4
Clothing	2.9	53.9	-12.9	12.1
Electrical & electronic	8.1	117.5	-0.7	11.7
Non-metallic minerals	2.9	48.3	-1.8	8.4
Food and beverage	10.0	42.9	1.5	8.0
Leather	1.1	13.8	2.4	5.3
Metal fabricating	9.4	51.1	-28.0	3.0
Chemicals	6.1	70.4	-7.3	1.4
Paper & allied	5.0	87.5	-8.5	0.4
Machinery	5.1	62.8	-23.1	0.4
Textiles	2.3	50.0	-13.2	-0.4
Knitting mills	0.7	52.6	-21.7	-3.8
Petroleum & coal	0.8	200.0	-12.8	-8.3
Primary metal	5.5	51.4	-19.6	-15.8
Tobacco products	0.2	-50.0	-38.2	-38.9
Miscellaneous	4.7	63.6	-12.1	14.3
Total	**100.0**	**66.4**	**-5.3**	**9.1**

The industries that were least successful during the period were tobacco products and primary metals, which reduced their employment by 40% and 16% respectively. Apart from these two, however, there were few dramatic job losses in any manufacturing industry.

As noted before, big firms reduced their labour force in practically all manufacturing industries. The only industries to show strength in the big firms were transportation equipment and printing and publishing, which include, of course, the province's booming auto industry and the prosperous media industry.

However, almost all industries grew strongly in the small-firm sector. Employment in small firms grew by more than 50% during 1978-87 (or 5% a year on average) in all but four of the manufacturing industries, as Table 8.6 shows. Small business growth was particularly strong in transportation equipment, rubber and plastics and the electrical and electronic industries. These three industries were among the top four contributors to overall employment growth in manufacturing, as Table 8.7 shows.

When these growth rates are translated into new jobs, the weight of the industries with the biggest workforces lends their growth rates more importance. Printing and publishing

Table 8.7
The Manufacturing Firms that Made a Difference

Contribution to total gain in manufacturing employment, by size of firm and industry, 1978-87. Grouped by biggest and smallest employers and ranked by contribution to employment increase

	Share of total employment gains by firm size					
Industry	**0-19**	**20-99**	**All small firms**	**100-499**	**500 +**	**Total**
	%	%	%	%	%	%
Printing & publishing	11.6	1.4	12.9	1.8	7.8	22.6
Transportation equipment	6.9	5.4	12.4	7.8	-0.1	20.1
Rubber & plastics	8.4	5.2	13.6	2.5	-2.4	13.7
Electrical & electronic	6.2	4.4	10.7	1.2	-1.8	10.1
Food & beverage	5.1	2.4	7.5	1.5	-0.1	8.9
Metal fabricating	18.7	3.2	21.9	-6.2	-12.4	3.3
Chemicals	3.3	2.4	5.7	2.2	-6.8	1.0
Paper & allied	2.4	2.4	4.8	-0.1	-4.4	0.2
Machinery	8.4	1.9	10.3	-1.2	-8.9	0.2
Primary metal	1.2	0.9	2.2	-1.0	-13.5	-12.4
Ten Biggest Employers	***72.2***	***29.6***	***101.8***	***8.5***	***-42.6***	***67.7***
Furniture & fixtures	9.0	1.8	10.8	4.9	-2.6	13.1
Wood industries	5.7	2.7	8.4	-0.3	-0.1	7.9
Other 8 industries	21.2	4.0	25.2	-5.9	-8.0	11.3
Ten Smallest Employers	***35.9***	***8.5***	***44.4***	***-1.3***	***-10.7***	***32.3***
Grand Total	**108.1**	**38.1**	**146.2**	**7.2**	**-53.3**	**100.0**

(which accounts for 3.6% of manufacturing employment) had to grow 31% to become the biggest single job creator, just beating out the transportation industry with its 12% growth rate on a base of 15.3% of manufacturing employment.

One half of all new jobs in manufacturing came from small firms in just four industries — printing and publishing, transportation equipment, rubber and plastics and electrical and electronic. The most spectacular performance came from small metal-fabricating firms, which accounted for a fifth of all new jobs in manufacturing in the province.

Services

The star performer in services is the industry that serves the needs of business. This industry has raised its share of employment in services from 17% in 1978 to 21% in 1986, thanks to its generating almost 30% of all the new jobs in services. As Table 8.8 shows, it comfortably outpaces the next best industry, health and welfare, which accounted for 23% of employment growth. Employment in services is now dominated by four industries that each account for about one fifth of total employment — education, health and welfare, services to business and food and beverage. This is a quite different situation from 1978, when education had one-quarter of service employment and services to business only 17%.

Services to business and health and welfare have been the powerhouses behind the strength of personal and business services and community services, respectively. These two are also the industries which had the strongest small business growth, as Table 8.9 shows. This is no surprise in services to business, in which small firms provide a little less than a half of total employment and where small firms have long shown that they can compete effectively. But it is a surprise in health and welfare, which has traditionally been dominated by big organizations. Despite having an employment base only one-third that of big firms, the small firms in this industry generated exactly the same number of new jobs as big organizations during 1978-87. This was achieved by a growth of more than 100% in small firms, or an average of 8% a year.

Small firms in services to business grew even faster, at 125% over the nine years, or 9.4% a year. Services to business also had the strongest growth in big firms, however, which

Table 8.8

The Changing Weights in Service Industries

The distribution, by industry, of employment in 1978 and 1986, and of the increase in jobs between 1978 and 1987, Ontario

Industry	Employment 1978 %	Industry share in: Increase in employment 1978-87 %	Employment 1986 %
Education	25.7	11.4	21.1
Health & Welfare	22.3	23.2	22.6
Cultural	1.0	0.9	1.0
Amusement & recreation	3.8	2.7	3.5
Services to business	17.1	29.8	21.2
Personal services	3.5	4.1	3.7
Accommodation & food	21.2	16.8	19.8
Miscellaneous	5.3	11.2	7.2
Total	**100.0**	**100.0**	**100.0**

helped it to grow 83% over the nine years, by far the fastest growth of any industry in any group. Although personal services has only 3.7% of employment in services, it had the second fastest growth, at 55%, and is likely to show strong growth in coming years.

Table 8.9

Small-Business Power in Service Industries

Employment growth rates, by industry, in firms employing fewer than 100 and more than 100, 1978-87, Ontario

Industry	Employment growth, in small firms %	big firms %	all firms %
Education	93.0	17.6	21.2
Health & welfare	100.8	33.1	49.9
Cultural	41.9	40.0	41.7
Amusement & recreation	43.6	15.9	33.4
Services to business	125.5	45.8	83.3
Personal services	61.2	36.3	55.2
Accommodation & food	54.9	14.9	37.9
Miscellaneous	109.5	84.2	100.2
Total	**83.1**	**27.7**	**47.8**

Average Salaries

The new jobs may all be coming in the small firms, but, as yet, the big salaries are not. As Table 8.10 shows, the smaller firms pay their employees a significantly lower salary than the bigger firms. This appears to be particularly so for firms employing fewer than five people, but this is probably an exaggeration. The low average salary in these very small firms, many of which are start-ups, is probably more a reflection of the greater reliance on part-time workers than on full-time salaries. Even for the larger small firms, however, there is still a large gap between wages paid in big firms and small firms. The only exception is trade where salaries are lower for firms employing more than 500 people than they are for firms employing 20 to 499.

Table 8.10[4]

How Salaries Compare in Different Sized Firms

Payroll divided by individual labour units, by industry category and firm size, Ontario, 1986

Sector	Average salary All firms $	Average salaries for firms employing: 0-4 $	5-19 $	20-49 $	50-99 $	100-499 $	500+ $
Goods producing	22,613	9,616	15,898	19,370	21,119	23,195	28,921
Trade	15,306	9,271	14,468	17,577	19,749	19,464	15,015
Market services	17,869	10,285	12,571	13,690	15,378	18,556	23,854
Funded services	22,181	11,082	12,573	13,411	14,348	18,549	24,573
All Sectors	**19,823**	**9,865**	**14,033**	**16,463**	**18,286**	**20,620**	**24,475**

The effect of these variances on the distribution of payroll between the different firm sizes is notable. As Table 8.11 shows, firms employing more than 500 people account for 57% of the total payroll in Ontario, compared to their 46% share of employment[5]. Small firms account for 28% of payroll, compared to 39% of full-time and part-time jobs. The greatest variances are in the goods-producing and funded services

[4] Statistics Canada, *Business Microdata Integration and Analysis and Small Business and Special Surveys*. Special run for individual labour units and payroll.

[5] Note that the shares of employment in these tables differs from the statistics used previously. Those used in the rest of this report count part-time employees as fractions of full-time jobs. The statistics used in the tables in this section count part-time workers as "individual labour units".

sectors, indicating this is where most of the part-time jobs are found. In trade, the shares of small firms in total employment and payroll are quite close.

Table 8.11
Distribution of Total Payroll by Size Within Category

Share of total payroll of each size of firm within each category Ontario, 1986

Sector	Total payroll All firms $ million	Distribution, by firm size within categories, of payroll 0-99 %	100-499 %	500+ %	of employment 0-99 %	100-499 %	500+ %
Goods producing	36,507	28.4	19.1	52.3	40.1	18.6	40.9
Trade	13,628	52.2	16.8	30.9	55.2	13.3	31.5
Market services	26,645	33.3	14.2	52.5	47.0	13.7	39.3
Funded services	25,067	8.6	7.9	83.2	15.1	9.4	75.1
Unclassified	293	96.4	3.6	0.0	98.9	1.1	0.0
All Sectors	102,140	28.2	14.7	57.0	39.5	14.2	46.1

It is notable, however, that the wage gap is much smaller in services than in the goods-producing sector or in trade. This has an interesting effect when the distribution of total payroll is analyzed by size. As Table 8.12 shows, manufacturing payrolls average more than 40% of the total payrolls for firms with 20-499 employees, compared to about 30% in the smallest firms. And services average about a third of the total payrolls of firms with fewer than 20 employees, compared to about a quarter for the rest.

Table 8.12
Distribution of Total Payroll by Industry and Size

Share of total payroll within each size group, by industry sector, Ontario, 1986

Sector	Sector share of total payroll for firms employing: All firms %	0-4 %	5-19 %	20-49 %	50-99 %	100-499 %	500+ %
Goods producing	35.7	30.6	32.4	38.7	42.8	46.3	32.8
Trade	13.3	22.1	28.0	25.3	21.6	15.3	7.2
Market services	26.1	34.6	31.9	29.5	27.2	25.2	24.0
Funded services	24.5	10.5	6.7	5.9	7.9	13.1	35.9
All Sectors	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Distribution of Jobs and Firms in Ontario

The tables on the following pages show the distribution, by industry and size, of Ontario firms (Table 8.13) and of employment in Ontario (Table 8.14).

Table 8.13

Distribution of Ontario Firms, by Industry and Size, 1986

Industry	Percentage of firms that are: Small firms	Medium firms	Large firms	Number of firms	Share of total
Primary	99.9	0.1	0.0	18,254	6.2
Mining	88.7	6.8	4.5	903	0.3
Manufacturing	91.2	6.6	2.2	22,705	7.7
Food and beverage	89.8	6.4	3.8	1,924	
Tobacco products	50.0	10.0	40.0	10	
Rubber and plastics	86.2	9.6	4.2	879	
Leather	81.1	16.7	2.2	227	
Textiles	87.1	10.0	2.9	630	
Knitting mills	75.6	23.5	2.9	136	
Clothing	90.1	8.5	1.4	916	
Wood industries	95.6	5.3	1.1	1,288	
Furniture & fixtures	95.7	3.7	0.6	1,756	
Paper & allied	79.2	11.8	9.0	434	
Printing & publishing	95.5	3.5	1.0	3,169	
Primary metal	78.4	14.2	7.4	282	
Metal fabricating	94.3	4.8	0.9	3,988	
Machinery	91.1	6.9	2.0	1,474	
Transportation equipment	81.3	13.1	5.6	869	
Electrical & electronic	87.0	8.8	4.6	959	
Non-metallic minerals	92.1	5.6	2.3	645	
Petroleum & coal	82.3	5.9	11.8	51	
Chemicals	81.7	13.0	5.3	792	
Miscellaneous manuf'rg	94.5	4.8	0.7	2,276	

Table 8.13 (continued)
Distribution of Ontario Firms, by Industry and Size, 1986

Industry	Percentage of firms that are: Small firms	Medium firms	Large firms	Number of firms	Share of total
Construction	99.2	0.7	0.1	36,001	12.2
T, C & U	96.5	2.5	1.0	10,440	3.5
Wholesale trade	97.2	2.4	0.4	19,328	6.6
Retail trade	98.9	0.9	0.2	46,833	15.9
F, I & RE	98.1	1.4	0.5	20,490	7.0
Services	98.4	1.2	0.4	107,047	36.4
Education	88.7	4.8	6.5	2,211	
Health & welfare	97.5	1.7	0.8	18,096	
Cultural	99.8	0.2	0.0	5,920	
Amusement & recreation	98.6	1.2	0.2	5,183	
Services to business	98.1	1.5	0.4	26,037	
Personal services	99.8	0.2	0.0	20,347	
Accommodation & food	98.4	1.3	0.3	18,885	
Miscellaneous services	98.6	1.1	0.3	10,368	
Government	87.9	6.8	5.3	1,144	0.4
Non-classified	99.9	0.1	0.0	7,115	2.4
Total - All industries	**98.9**	**1.6**	**0.5**	**290,260**	**100.0**

Table 8.14

Distribution of Ontario Employment, by Industry and Size, 1986

Industry	Percentage of employment in: Small firms	Medium firms	Large firms	Total employment	Share of total
Primary	89.4	8.9	1.7	30.2	0.7
Mining	11.7	12.1	76.2	45.3	1.0
Manufacturing	23.3	21.9	54.8	1,040.7	23.8
Food and beverage	16.7	17.1	66.2	100.6	
Tobacco products	3.8	7.7	88.5	2.6	
Rubber and plastics	20.8	24.5	54.7	54.8	
Leather	20.3	36.7	43.0	12.8	
Textiles	27.2	38.1	34.7	23.9	
Knitting mills	26.0	60.3	13.7	7.3	
Clothing	44.4	35.6	20.0	29.2	
Wood industries	50.2	36.1	13.7	27.7	
Furniture & fixtures	45.3	28.2	26.5	36.2	
Paper & allied	12.1	13.3	74.6	52.0	
Printing & publishing	32.2	20.2	47.6	79.4	
Primary metal	6.3	14.2	79.5	59.1	
Metal fabricating	36.5	27.7	25.8	108.0	
Machinery	34.4	28.7	36.9	53.6	
Transportation equipment	6.0	14.6	79.4	157.9	
Electrical & electronic	13.4	14.8	71.8	82.5	
Non-metallic minerals	23.1	17.0	59.9	29.4	
Petroleum & coal	4.9	2.0	93.1	10.2	
Chemicals	13.3	24.8	61.9	63.7	
Miscellaneous manuf'rg	38.8	30.6	30.6	49.7	

Table 8.14 (continued)
Distribution of Ontario Employment, by Industry and Size, 1986

Industry	Percentage of employment in: Small firms	Medium firms	Large firms	Total employ-ment	Share of total
Construction	71.5	18.6	9.9	202.8	4.6
T, C & U	19.5	13.3	67.2	295.8	6.8
Wholesale trade	57.2	24.1	18.7	233.1	5.3
Retail trade	45.3	11.1	43.6	543.1	12.4
F, I & RE	26.5	13.1	60.4	310.1	7.1
Services	37.9	14.8	47.3	1,306.0	29.8
Education	4.3	6.3	89.4	290.8	
Health & welfare	27.9	18.0	54.1	297.8	
Cultural	84.6	10.0	5.4	13.0	
Amusement & recreation	60.4	19.6	20.0	47.5	
Services to business	45.6	21.3	33.1	251.0	
Personal services	75.6	11.4	13.0	49.3	
Accommodation & food	59.0	13.6	27.4	268.9	
Miscellaneous services	55.2	18.0	26.8	87.7	
Government	3.6	4.1	92.4	364.2	8.3
Non-classified	97.1	2.9	0.0	10.2	0.2
Total - All industries	**33.2**	**15.5**	**51.2**	**4,381.6**	**100.0**

CHAPTER 9
THE DYNAMICS OF BUSINESS AND EMPLOYMENT

Small businesses, as a group, can reasonably lay claim to being the most dynamic part of the economy, as they consistently provide the lion's share of new jobs. But individually, they often lead a precarious existence. The turnover of businesses is staggering. Although each one is different, small firms seem to follow four basic patterns of behaviour as they start, grow, decline or fail:

- A relatively small proportion are major success stories, including a handful of super performers who account for a wildly disproportionate share of the total employment gains;
- A lot more are as ambitious as the first category, with dreams just as grand, but they fail, for a myriad of reasons, some of which are their own fault, some of which are not. Many of these people learn from their experience and go on to succeed in subsequent business ventures;
- In between, there is a large number of small business owners — about 40% of all business owners — who earn a comfortable living, but have no desire for more than marginal growth; and
- Finally, there are the small businesses that survive but never acquire any momentum, growing in good times and shrinking in bad times, flirting constantly with disaster, sometimes for many years.

It makes for a volatile mix, with businesses starting, failing, merging, selling out, growing and declining in astonishing volumes. Table 9.1 shows how this churning affects the size categories that have been used in all the analysis in this section of The State of Small Business. It's obvious the firms in these categories are a moving target, to say the least. Almost half the 1978 firms ceased operations, but they were replaced one and a half times by new ventures. The most unexpected result of this analysis, however, is the

degree of movement between size categories by firms that are growing (growers) and declining (sliders). In each category other than the smallest, the inflowing firms that had grown or slid out of other size categories represented more than half the total number of firms in that category in 1978.

Most of this inflow is smaller firms growing into bigger categories. Table 9.1 shows just how strong Ontario's corporations are in the critical categories where employment per firm is 50 to 500. This has traditionally been the weakest sector of the Canadian economy, but not in Ontario, where inter-category transfers increased the three biggest size categories by 87%, 58% and 52% respectively. The larger small firms, employing 50 to 99 people were the strongest sector of all, which augurs well for future job creation in the province.

In the rest of Canada, the flow into these categories ran far slower, at about 40% Ontario's rate in firms employing 50 to 99 people and at about 20% of Ontario's rate in firms employing 100 to 499 people. In the largest firms, there was a net loss of about 10% of the firms from transfers between categories.

Looking at this churning from the other end of the telescope — the source category of the moving firms — Table 9.1 shows that a third or more of the 1978 firms employing 5 to 99 people either grew out of their category or declined into lower ones. In firms employing 50 to 99 people, a total of 91% of the 1978 firms (including a good portion of the entrants during the period) grew or declined into other categories. The category wasn't depleted, however, because these firms were replaced by an inflow of 117%, most of which was smaller firms growing into this category. Only a third of the 1978 firms in this category were still there in 1985.

In the smallest firms, employing fewer than five people, all the power comes from start-ups, as is well known. Because of the huge numbers of firms in this category (72% of all firms), bigger firms declining into the category do not make much of a dent, but new ventures added 87% more firms during the seven year period. This is comfortably ahead of the 50% lost to failures. An impressive 11% of the firms in this category grew into bigger categories.

It is surprising just how much turnover there was in the largest firms, which employ more than 500 people. These

Table 9.1[1]

The Volatility of Small Businesses

Turnover in each size category during 1978-85 — from new firms, exits, and growth or decline into other size categories — expressed as a percentage of the number of firms in 1978, Ontario

Type of change	Percentage change by size of firm (number of employees)						
	<5	5-<20	20-<50	50-<100	100-<500	500+	Total
	%	%	%	%	%	%	%
Base, 1978	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Firms coming into the size category:							
Entrants	87	45	33	30	23	17	74
Inflow*	5	45	67	87	58	52	18
Total	92	90	100	117	81	69	92
Firms leaving the size category:							
Exits	50	33	31	32	33	30	46
Growers*	11	16	27	42	15	0	13
Sliders*	0	16	19	17	11	8	4
Total	**61**	**65**	**77**	**91**	**59**	**38**	**63**
Net change in category	**+31**	**+25**	**+23**	**+26**	**+22**	**+31**	**+29**

* Note: Growers are the firms that have grown enough to graduate to the size category above them (or, sometimes one or two categories beyond that). Sliders decline to a lower category. Inflow is the other side of the coin — additions to a size category by firms that were in a smaller category and grew into it, or by firms that were in a bigger size category and declined into it.

firms, fewer than 1,500, lost almost 40% of their number to failures and downsizing, but still managed to increase their total number by 31%. This was due mainly to the mid-sized firms that grew into large firms, but births also played an important role. A surge of almost 600 firms that graduated into the biggest size category and another 200 that started up big-time new ventures employing more than 500 employees together swelled the ranks of big businesses by more than two-thirds of all big firms operating in 1978.

[1] Source: The statistics in this chapter are based on *Increasing and Declining Employment in Continuous Companies, by Province, Canada, 1978-1985*, Statistics Canada, 1987. This is a special run of the data contained in *Employment Dynamics by Province, Industry Classification, Firm Size and Life Status, 1978-1985*.

Growth and Decline in the Job Market

The impact of this turnover becomes even more dramatic when jobs are added to the equation. As Table 9.2 shows, the major contribution to job creation came from new ventures. The firms that existed in 1978 employed 4% fewer people in 1985, but new ventures added 74% to the number of firms and created 104% of the total new jobs generated over the period. However, the most spectacular contribution came from the handful of firms — a mere 8% of the total number of firms — that grew into a bigger size category. They created 64% of all the new jobs during 1978-85.

Table 9.2
The Big Hitters and the Big Losers

Distribution of firms by status and the corresponding net gains and losses of employment, 1978-85, Ontario

	Firms in each status		Net employment gains/losses	
Status	Number	As a % of 1978 firms %	Number (000s)	As a % of total gains %
Exits	98,096	46	-470.3	-74
Unchanged	90,946	42	209.7	33
Growers	16,808	8	406.5	64
Sliders	9,687	4	-173.0	-27
1978 firms	**215,537**	**100**	**-522.4**	**-4**
Entrants	160,089	74	666.3	104
Net change*	**61,993**	**28**	**1,306.8**	**100**

* Net change in firms is entrants less exits.
Note: Growers are the firms that have grown enough to graduate to the size category above them (or, sometimes one or two categories beyond that). Sliders decline to a lower category.

The job losses from firms that shrank into smaller size categories were also not insignificant — although these firms were only 4% of the firms that existed in 1978, the jobs lost from their downsizing subtracted 27% of the total net gain in employment during 1978-85. By contrast, the 42% of firms that remained in the same size category throughout 1978-85 developed at a more stately pace, accounting for 33% of the total increase in jobs.

Overall, the firms that were operating in 1978 had almost exactly the same number of employees in 1985 as they did in 1978. However, this "stagnation" hid a major loss of almost half of all the 1978 firms, that, between them, lost three quarters of all the new jobs created by start-ups during the seven year period. To put it another way, for every two jobs created by start-ups and expansions, one was lost to failures and downsizing.

Table 9.3 takes this a step further, breaking down the job creation statistics by size of firm in 1978.

Table 9.3
New Jobs and Firms in Transition

Share of total gains in employment in Ontario during 1978-85, by firm size and status

	Size of firm (by number of employees) %						
Status	**<5**	**5-<20**	**20-<50**	**50-<100**	**100-<500**	**500+**	**Total**
Exits	-13	-17	-12	-8	-14	-9	-74
Unchanged	2	2	1	1	6	21	33
Growers	15	15	11	9	13	0	64
Sliders	0	-5	-5	-4	-6	-7	-27
1978 firms	**4**	**-5**	**-5**	**-2**	**-1**	**5**	**-4**
Entrants	39	25	13	8	11	9	104
Total	**43**	**20**	**8**	**6**	**10**	**14**	**100**

Note: Growers are the firms that have grown enough to graduate to the size category above them (or, sometimes one or two categories beyond that). Sliders decline to a lower category.

One of the more surprising conclusions of this analysis is that the jobs lost from deaths are spread quite evenly across the size categories. Although the smaller firms have a much higher rate of deaths than the large firms, the job losses in the larger firms are much larger for each death. In terms of numbers of firms, there were less than 400 firms employing more than 500 people that ceased operations during 1978-85, but they lost almost 60,000 jobs. On the other hand, the failures of 78,000 firms with fewer than five employees during the period caused only 85,000 people to lose their jobs, or 46% more than the big firms. Many of these, of course, are one-person businesses, the owners of which float repeatedly

into and out of employment and independence.

This indicates the secret of small businesses in their role as the engine of job creation — when they fail, as they often do, the job losses are not too serious, but when they grow, the gains in employment are often impressive. The 5% of the 1978 firms with fewer than five employees that grew into bigger size categories accounted for 15% of all new jobs created during 1978-85. The firms employing 5 to 19 people that grew into bigger size categories were only 1.8% of all the firms of all sizes existing in 1978, but they also accounted for 15% of total job creation.

Perhaps the most impressive conclusion from this analysis lies in the contribution to job creation made by the high growth firms that jumped two or more size categories in 1978-85. Table 9.4 attests to the power of these high achievers.

Table 9.4
The Achievers

Net employment gain by Ontario firms that grew into a size category two or more higher than their 1978 category during 1978-85

Size of firm in 1978 (# employees)	Number of firms		Net employment gain	
	Number	As a % of 1978 total %	Number	As a % of total gains in 1978-85 %
<5	820	0.38	38,900	6.1
5 - <20	483	0.22	47,200	7.4
20 - <50	238	0.11	31,700	5.0
50 - <100	14	-	9,300	1.5
Total	**1,555**	**0.72**	**127,100**	**19.9**

Slightly less than three-quarters of one percent of the firms operating in 1978 accounted for one-fifth of all new jobs during 1978-85. These, of course, exclude start-ups during the period, demonstrating the extraordinary potential of small firms to grow fast once they are established.

PART III

The Role of Government in Small Business

CHAPTER 10
THE EVOLUTION OF GOVERNMENT POLICY

When governments first learned to appreciate the importance of their role in nurturing the growth of small firms, their programs concentrated mainly on "how-to" advice to established firms. The business skills of most owners of small firms at that time were generally underdeveloped, so this assistance, delivered mainly by the Federal Business Development Bank, was an important element in raising their ability to operate effectively in an increasingly complex and competitive world.

There is now far less need for government intervention in this area. Not only are modern entrepreneurs much better businesspeople than their predecessors, but they can draw on a broad range of inexpensive, tailor-made advice. Governments still maintain a role in this area, with printed booklets on how to start a business and much more, but it is no longer a primary focus. This is partly why the FBDB is scaling down its management skills training.

The next phase of government policy started when it became apparent that small firms were creating most of the new jobs in the economy. This placed an immediate imperative on the government to nurture such an important resource. The focus in this phase was on financing and on the development of ways to smooth the path of budding businesses. The Ontario government decided to address start-ups as a mass market, starting in 1984-85, and has put in place well-developed start-up assistance. The Ontario government also created the advocacy program to run interference for beleaguered small businesses when other ministries propose laws or regulations that affect them. The Ontario government also embarked on a series of studies to divine what makes entrepreneurs successful. Programs like the Small Business Development Corporations in the early 1980s and New Ventures in the later 1980s made a solid contribution to promoting entrepreneurship. With an average start-up investment of slightly more than $13,000, New Ventures is developing grass roots entrepreneurship. The

Ontario government's counselling program is also providing expert advice in navigating the regulatory and management shoals threatening new and growing businesses.

This phase of government initiative is maturing now. SBDCs have levelled off, although New Ventures is just gathering momentum. With business self-help offices in place across the province, the government can reach for new goals. This doesn't mean it is no longer concerned with start-ups, counselling and financing programs, just that additional programs are being overlaid to add sophistication and depth to Ontario's small business community. Recent innovations include policy thrusts both before and beyond the start-up phase.

One step behind the start-up is the informal investor network, the "angels" who fund new entrepreneurs before they reach the stage when they can draw on commercial financing. Ontarians are only just beginning to find out about these people, who are widely dispersed and keep a low profile, but who are a critical part of the whole process.

Before even that stage, entrepreneurship needs to become known in high schools, which can prepare young minds for the thrills and demands of entrepreneurship. The Ontario government is deeply engaged in developing entrepreneurial options for the high school system. With an experimental new curriculum on entrepreneurship being developed in high schools now and other programs to bring entrepreneurs into the classrooms, young Ontarians are being given an opportunity to appreciate the life of an entrepreneur.

Beyond the classroom and the start-up, the challenges of managing a growing company in today's highly competitive environment are daunting. The major needs of small firms at the beginning of the 1990s are in advanced management skills, in dealing with people and in developing management systems to absorb the mounting flow of raw information.

Once again, there is a role for government to develop an appreciation in small firms of the need for these skills. Effective government programs will help them understand the value of these skills, thereby opening the door to the private sector to deliver these services at higher, commercially viable rates. These comments apply particularly to the technical skills required to keep Ontario firms internationally

competitive. The government has now introduced a program, called Technical Personnel Program, which will help small firms hire the technical expertise they need to keep their operations able to compete effectively abroad.

Finally, there are still gaps in the financing market for small firms. The major one is young firms that are growing rapidly and need equity financing. The existing venture capital industry is not handling this niche, so the government has proposed a program to fill it. Growth Ventures will provide equity capital to the high-risk firms that cannot get by without it.

Overlaid onto this series of policies and programs is the growing need to defend the interests of small business in the waves of legislation that affect all businesses so dramatically. Small business is still not a major priority in Canadian governments, despite its economic importance and they often get caught in crossfire. But then, that's nothing new to them.

CHAPTER 11
GOVERNMENT POLICY ISSUES

The New Ventures Program

The New Ventures program was established in September, 1986. Its primary objective was to provide a source of debt financing to companies that did not have the collateral to support normal commercial loans. Its secondary goal was to encourage start-up ventures to prepare competent business plans and establish adequate financial reporting systems. Applicants for the New Venture loans ware required to submit a satisfactory business plan with their applications.

The program offers a 100% guarantee for loans of up to $15,000 for a term of five years, provided the applicant's equity investment in the business is at least as much as the government guarantee, except in Northern and Eastern Ontario, where the applicant's equity need not be greater than 50% of the loan guarantee. The loan must be for a completely new business and the applicant must commit to hiring at least one employee during the term of the loan guarantee. The program is administered by the lenders, who review and approve proposals.

The program has performed well. Although the take-up of the program was running at an annual rate of about 5,000 new businesses at the end of its third year of operation, compared to a projected 7,000 when the program was instituted, the program's targets were met by a wide margin, as Table 11.1 shows.

Apart from these overall targets, New Ventures had the objective of participation rates in the program of 24% by firms in northern and eastern Ontario and of 24% by women. In the program's first three years, both these targets were comfortably achieved — 29% of the loans went to northern and eastern businesses and 34% went to women.

Table 11.1[1]

Performance of the New Ventures Program

Targets set for the New Ventures program in September, 1986 and actual experience in the period to March 31, 1989

Performance measurement	Targets	Actual
Participants per annum	7,000	4,860
New jobs per loan	1.5	2.3
Annual sales per firm	$45,000	$204,000
Provincial tax per firm	$3,143	$14,307
Private-sector funding	$15,000	$67,700

As of end of March 1989, $120 million in guarantees had been advanced under the program. The average loan was for $13,321. The estimated benefits of New Ventures up to that date were as follows:

Increased sales	$2.1 billion
New jobs (excluding owners)	11,096
Additional tax revenues to the provincial government	$147 million
Additional total investment from the private sector	$356 million

For two-thirds of the successful applicants, their New Venture loan was the first time they had sought commercial financing. Seventy-one percent of them said the program was important or extremely important in starting their ventures and 62% said it was important to the survival of their businesses. Almost a fifth said that, without the program, the chances of their proceeding with their idea would have been less than 25%. However, 61% said there was a 75% chance or better that they would have proceeded with or without the program, mostly by seeking financing elsewhere. The lenders weren't so sure they would have been successful, however. Almost 80% of the lenders reported they would have approved less than 50% of the loans they made under the program on the basis of the borrowers' personal resources. The lenders rated half the applicants as high-risk.

[1] *Report on the Evaluation of the New Ventures Program*, prepared for the Ministry of Industry, Trade & Technology by Price Waterhouse, March, 1989

Despite these odds, the lenders have given the program high ratings. More than half said it had increased their willingness to consider small business loans. Taking this and other considerations into account, it is estimated that about half the loans would not have been made without the New Ventures program.

The average initial investment was $36,188, including owner's equity of $20,373 (68%). Twelve percent of the sample of successful applicants surveyed in the report on the program[2] invested more than $100,000, however. On average, sales of the successful applicants were $173,298 in the first year, $293,990 in the second and $759,487 in the third.

Naturally, the successful applicants for New Ventures were smaller start-ups. Less than 20% are incorporated. However, 7% of the firms had sales of more than $500,000 and they exhibited quite different characteristics than the other firms. More than a third of them (37.8%) were incorporated. They also had initial investments two and half times higher than the average for all firms ($95,115, compared to $36,118) and the owner's equity was double ($41,099, compared to $20,373). They were also more likely to be male, older and better educated. Finally, their income was significantly higher at $40,780, compared to the average for all firms of $30,070, and their net worth was $95,000 on average, more than three times higher than the average for all firms.

The differences between men and women were not widespread, although they did follow some of the patterns identified earlier in this report. The average earnings of the women were $23,866, compared to $33,257 for the men. And in the survey of successful applicants, the women invested much less ($67,788, compared to $94,417 by men). These figures are not representative as the survey showed higher investments than the analysis of all loan applicants. However, they do illustrate trends. The women were also twice as likely to have partners as the men (39% compared to 21%) and they created fewer jobs — 1.4 employees compared

[2] Ibid. *Report on the Evaluation of the New Ventures Program*

to 2.7 by the men. However, only 28% of the defaulted loans were to women, although women represented 34% of the borrowers.

The effectiveness of New Ventures in encouraging more business planning was mixed. They were prepared for the requirement to submit plans, because 82% of the successful applicants said they had made a business plan before applying and 90% had made cash flow or sales projections. And they found them moderately useful. As a result of the process of filling in the application form, 42% changed their assessment of start-up costs and 40% changed their assessment of their operating costs. Forty percent changed their assessment of financing needs for the business.

Almost half the applicants (46%) said the discipline of preparing a business plan had helped them understand planning better and 49% felt it had helped them establish a better relationship with the lender. However, they didn't think the planning process had helped them much in understanding the competition (66%).

Loan losses to the end of March 1989, were $9.5 million, which was far below projected defaults when the program was started. It appears that, on average, only 20% of the loans will be in default by the end of their third year. This is a significantly better rate than the whole population, almost half of which have ceased to operate at the end of their third year, as Chart 11.1 shows.

These figures may be revised when the program has been in effect for longer, because it is not mature yet. It is estimated that annual costs will rise to between $19 million and $25 million by 1993-94, depending on the number of applicants and economic conditions.

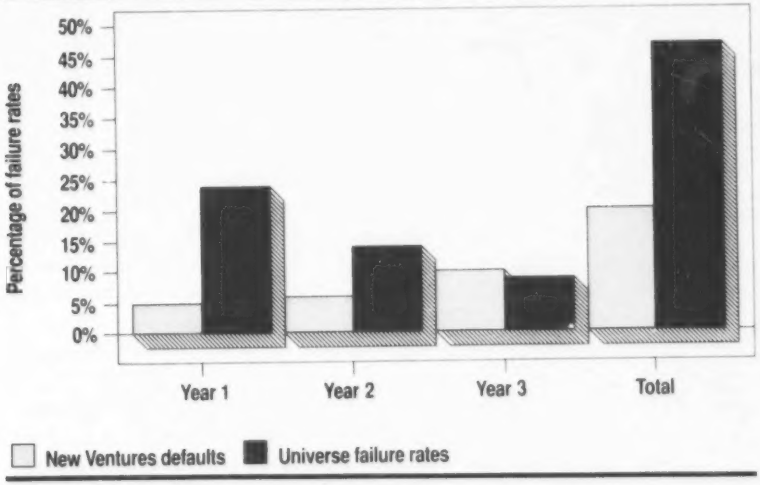
Growth Ventures

The other side of the New Ventures coin is Growth Ventures, a new program announced by the Ontario government last spring. It is a new form of assistance in raising equity financing for growing small and mid-sized companies in Ontario.

Chart 11.1

New Ventures Loans Fail Less Often than the Average

Comparison of failure rates in the first three years after start-up for all firms in Ontario and for successful applicants in the New Ventures Program



The program is a response to the need expressed by young growing companies for equity capital. In a survey conducted for the Premier's Council[3], lack of equity capital was cited as a constraint on growth by 74% of the companies. Lack of debt financing was identified as a constraint by 59% of the companies. It has long been recognized that smaller firms, particularly growth firms, are more heavily leveraged in their financing than large companies. The Economic Council of Canada found that firms with annual sales of less than $25 million had a debt/equity ratio of 55:45, compared to 41:59 for the remainder.

At times of recession or high interest rates, overleveraged companies are the first to suffer because they cannot sustain their payments of loan interest in the face of a prolonged drop

[3] *Competing in the New Global Economy*, Report of the Premier's Council, Volume 1, citing results of the survey conducted by the Canada Consulting Group and Telesis.

in revenues. Because these firms are riskier investments, investors demand a higher return or a level of ownership that is unacceptable to the entrepreneur. There are two effective ways of reducing this high level of risk:

- Pool investments in these kinds of firms so that the successes can support the failures.
- Leverage the equity investment of the pool by giving them access to low-cost loans that can make their equity dollars stretch further.

Growth Ventures is aimed at reducing risk through these kinds of measures. It will augment pools of privately-owned investment capital that make equity investments in the small and mid-sized firms the government wants to help. Investment decisions will be made by the operators of the pools, who will be approved by the government as participants in Growth Ventures.

The program will be administered by the Ontario Development Corporation, which will announce details of the program in the new year. The Ontario Development Corporation will guarantee loans to the operators of the pools of money in order to make their equity dollars stretch further. Interest rates on the guaranteed loans will be at or slightly more than the current rate for Ontario government bonds.

A key component of these kinds of investors is that they should ideally participate in the management of the venture since the competence of the entrepreneur is critical to its success. Few Canadian venture capital companies are structured to provide this kind of assistance. Most of the Canadian venture capital industry has moved away from early-stage development and are not acting as an effective intermediary between the large institutional sources of venture capital and the growing companies.

The Small Business Development Corporations met an important need for financing growing ventures, but this program is levelling off now. Net registrations of SBDCs (new registrations less revocations) were -11 in 1987-1988 and only +15 in the first nine months of the most recent year. The SBDCs also have tended to meet the needs of the informal

investor market[1], whereas the government wants now to help develop the formal venture capital market. The pool approach will help equity financing in the one range where there is a significant gap in the market — smaller, growing firms.

Educating Future Entrepreneurs

The Ontario government has embarked on a major project, still in the pilot stage, to heighten awareness of entrepreneurship among elementary and high school students (See The State of Small Business, Ontario, 1988). There are currently two major policy initiatives being developed:

- The Ministry of Industry, Trade & Technology will start two pilot projects in early 1990 for a new program called VISIONS. This project is aimed at students in grades seven and eight, who will be given an opportunity to meet real entrepreneurs in their classrooms. The entrepreneurs will be encouraged to share with them their dreams, motivations, challenges and problems. The Ministry is preparing teaching aids for both teachers and entrepreneurs to maximize the effectiveness of the encounters.

- The Ministry of Education has developed a curriculum called Entrepreneurship Studies for grades 11 and 12. The main objective in the curriculum is to enable these students to assess their personal interest in and aptitude for entrepreneurial activities, but the benefits are expected to extend toward helping them think creatively in a wide range of fields, including their choice of career and life skills.

  The project is still in the pilot stage. Of the province's 767 schools, 40 taught the course in 1988-89. The Ministry of Industry, Trade & Technology is actively involved in the implementation of this curriculum. The major difficulties that have come to light are the training of qualified teachers and development of teaching materials.

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[1] An Equity Financing Vehicle for Growth Companies, a report prepared for the Small Business Branch of the Ministry of Industry, Trade & Technology.

These programs are being developed in the light of a survey of attitudes among schoolchildren in Ontario aged 12 to 18. This survey demonstrates strongly positive, if somewhat idiosyncratic, attitudes toward small businesses and entrepreneurs. The highlights of the report[5] include:

- More than half the students think most businesses employ more than 100 people;
- Only 18% thought small businesses create most new jobs;
- They are more perspicacious in their view of what entrepreneurs are. More than half thought they were owners of small businesses and 36% thought they were managers of businesses. Just less than 30% thought they have ideas on how to make money or they have ideas on new products or they bring together workers, money and a product or service. Almost a quarter thought they recognize and act on opportunities, and 16% thought they were presidents of big companies;
- Small business has a very positive image among high-school students, 81% of whom think entrepreneurs get along well with people. Seventy percent think entrepreneurs want to help workers get training and 61% think they treat all people fairly. Sixty percent think they are honest (but 28% thought they weren't). The students were evenly split on whether entrepreneurs are interested only in making money;
- Forty-three percent of the students said they were likely or somewhat likely to start a new business. This tendency was stronger among students who like school than among the 30% of them who don't;
- There were few significant differences in the responses of male and female students. However, when asked if they were likely to start a business when they finished school, 16% of the males said that was very likely, compared to

[5] *Survey of Student Attitudes on Entrepreneurship and Small Business*, September, 1985, conducted by the Ministry of Industry, Trade & Technology, with the assistance of Environics Research Group.

11% of the females. And 11% of the males said it was not at all likely, compared to 15% of the females; and

- Forty-six percent said a member of their extended family currently owns a business.

The survey was conducted with 929 students in 19 schools in Thunder Bay and in East York in Metropolitan Toronto.

A Training Levy on Payroll?

The Advisory Council on Adjustment, chaired by Jean de Grandpré, has suggested that Canadian companies be encouraged to allocate more resources to training their employees by a refundable levy of 1% of payroll. The levy would be refunded to employers who spend the required amount of money on employee training.

The cost to Ontario small firms is projected to be $374 million, or about $218 yearly per employee. Two different surveys have found differing opinions on the training effort of small firms[6]. The Canadian Federation of Independent Business found that the training effort increases as firms grow bigger, rising from 66% in firms with fewer than 20 employees to 84% of those with more than 50 employees. The Ministry of Skills Development found that 27% of all Ontario firms have formal training programs, but the effort is much greater among firms with 20-49 employees (53%) and 50-199 employees (61%).

The difficulty in assessing training outlays precisely lies in the nature of employee training in small firms, because so much of it is on-the-job. This is expensive in the time of other employees or of the owners, but the cash outlays are much lower, even relatively, than they are in big companies with institutionalized training systems. Because the training outlays of small firms are more difficult to measure, the training levy would favour organizations with formally structured training systems, resulting in small firms bearing a disproportionate share of the tax.

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[6] *Skills for the future: Small Business and Training in Canada*, Canadian Federation of Independent Business, March, 1989. The Training Decision: Training in the Private Sector, the Ministry of Skills Development, April, 1989

There is also a problem in defining who is an employee and who is self-employed in the construction, trucking and several other industries.

Self-Employment and the Workers' Compensation Board

The trend toward self-employment is causing some administrative problems for government agencies responsible for collecting premiums or taxes. The Workers' Compensation Board, for example, believes it is losing up to 10% of its premium income from independent sub-contractors who are eligible for WCB benefits but escape paying premiums. This arises despite an arrangement between the WCB and the major trucking and logging firms, which have agreed since 1976 to remit WCB premiums on behalf of the independent truckers after deducting the appropriate amounts from their payments to the truckers. The Board has proposed solving the problem by defining these self-employed sub-contractors as employees, and making their major (or sole), client responsible for them as far as the WCB is concerned.

The WCB proposes to apply an "organization test" that would define independent contractors as employees if their operations are considered an integral part of their clients' businesses. This would run counter to the provisions of the Truck Transportation Act, which recognizes owner-operators as independent business people.

Revenue Canada's current definition of self-employment requires that there be no master-servant relationship, and that the means of production be owned by the self-employed person, who should have a reasonable expectation of profit or risk of loss.

With an increasing number of employees choosing to become self-employed, and a growing realization in big business that working with independent sub-contractors is often more efficient and inexpensive, there is a lot at stake in how self-employment is defined.

There are more than 100,000 self-employed people in Ontario who have no employees. The most important sectors for these people are construction contractors (30,000), owner-operators in the trucking industry (15,000) and people providing services to business (21,000).

The Goods and Services Tax

The proposed federal Goods and Services Tax (GST) has been welcomed by many business organizations because it will replace the federal sales tax, which is generally regarded as unsatisfactory. However, very few business organizations are comfortable with the specific design of the GST. Small business organizations and many sectoral business associations feel the rate is too high because there are too many exemptions. There is concern at the complexity of the tax system, particularly if the federal and provincial governments run parallel sales taxes, applying different rates to different ranges of goods and services. Many aspects of the GST are complex and will demand outside advice for small firms.

The federal government has made a number of concessions to the difficulties of small businesses. Firms with sales less than $6 million a year will be permitted to remit their tax to Ottawa quarterly and procedures will be streamlined for retailers with revenues of less than $2 million a year. And the government will credit collecting organizations with a fee for administering the tax. The credit will be 0.4% of sales to a maximum of $600. While these measures are helpful, they will fall far short of compensating small firms for the extra work.

The GST will mean as many as 150,000 Ontario businesses will collect sales tax for the first time. The biggest danger in this sudden expansion of tax collectors is that some people will drift into the cash economy, thereby reducing both GST and the personal income tax yields, because of unreported income.

Personal and household services may be negatively affected by the tax, since they are usually paid out of discretionary income. This industry is also the most vulnerable to a growth in the underground economy.

The other concern for small firms is their sales to tax-exempt organizations. Tax-exempt clients of small firms include dental and health services, daycare, legal aid, educational services, the public sector, domestic financial services, and the MUSH sector (municipalities, universities, schools and hospitals). The danger is that these organizations do not pay any GST and they do not receive any credit on the GST component of goods and services they buy. This means their

suppliers are at a disadvantage in price terms against employees of the tax-exempt organization who can provide the same service without paying GST on it.

The MUSH sector is partly protected from this danger because credits are available to them up to what they would have paid under the federal sales tax. Small firms would prefer the others be classified as zero-rated, which means that they are eligible for rebates on the GST components of goods and services they buy from suppliers.

Technical Personnel Program

As part of the government's continuing program to improve the competitiveness of Ontarian companies, it introduced in the late summer of 1989 a new program called Technical Personnel Program (TPP). This is designed to reduce the financial barriers to hiring appropriate people in small firms that lack technical expertise. The program provides one quarter of a technical employee's salary over a three-year agreement, to a maximum of $45,000 per person.

The program is aimed specifically at upgrading the technology of the company. The grant can be applied to projects to improve product quality, production processes, the facility layout or develop new products or services, among other eligible purposes. These projects will assist companies to compete in the export market. The critical requirement is that the company not have anyone with the required expertise on staff. The grant will be 50% of the first year's and 25% of the second year's salary, subject to a maximum salary of $60,000.

The program is not available to companies that wish to upgrade their employees' skills for general purposes. They must have a specific project, fully costed, to improve the quality of their goods or services or their production processes. Other eligibility requirements include:

- The company must be a manufacturing or service company based in Ontario (no retail businesses are eligible);
- it must have 10-200 employees;
- the company must be at least two years old;
- it must be exporting or have plans to export the products for which the technical personnel are needed;
- the company must commit to a three-year program; and
- the technical person must be a new hire.

APPENDIX: SMALL BUSINESS ADVOCACY REPORTS

These research reports are available from Small Business Advocacy, Ministry of Industry, Trade and Technology, 7th Floor, Hearst Block, 900 Bay Street, Toronto, Ontario M7A 2E1 (416) 965-6304.

1. **Survey of Small Business Registrants, 1984 (October 1984)**

   Results of interviewing 911 Ontario entrepreneurs about the businesses they start. Includes information on investment, hiring intent, previous experience, type of business, why the business was started and demographics.

2. **Self-Directed RRSP Investment in Private Companies (May 1985)**

   Survey of characteristics of holders of self-directed RRSPs (150 people). Results compared to information obtained from 2,000 people when they either opened self-directed RRSPs or transferred funds to such an RRSP. Survey was conducted on behalf of SBA by Decision Marketing Research Limited.

3. **Expanding Ontario's Small Business Development Corporations Program to Business Services (May 1985)**

   Argument for extending eligibility under Ontario's SBDC program to Ontario's business service firms. Also argues for expansion of SBDC's existing Match-up Service to introduce appropriate SBDC investors and small business owners and emphasize smaller placements of equity.

4. **An Advance Notice System for Proposed Regulatory Initiatives (September 1985)**

   Proposal to create an Advance Notice System in Ontario. Includes an examination of advance notice in place in other jurisdictions, description of Ontario's history with respect to advance notice, identification of principles to be considered in any improvement of the regulatory process and policy options and recommendations.

5. **Newly-formed Small Businesses in Ontario, 1982-84 (August 1985)**

   Results of interviewing 861 Ontario entrepreneurs. Provides a profile of Ontario's small business owners and their attitudes about various issues and programs, as well as a comparison of unincorporated and incorporated businesses. As well, the research provides a profile of the kinds of businesses that are started and remain viable. Survey was conducted on behalf of SBA by The Creative Research Group.

6. **Small Business Payroll Taxes (March 1986)**

   The economic implications of payroll taxation on small businesses are examined. Also looks at the effects of abolishing Ontario Health Insurance Plan premium payments and replacing the payments with a 2% employer-paid payroll tax. Features an examination of impacts on an average small business, a garage, a restaurant, a construction firm and a manufacturer.

7. **Small Business Regulation and Paperburden (March 1986)**

   A joint project of SBA and the Department of Regional Industrial Expansion, Ontario Region, the study identifies and clarifies specific areas of regulatory and paperburden in Ontario's small business community. Looks at problems and problem sources identified by the general economic sectors and more specifically the tourism sector. Survey was conducted by The DPA Group Incorporated.

8. **Entrepreneurship and Small Business (May 1986)**

   A discussion paper tabled in Ontario Legislature by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil, as a supplement to the Ontario Budget of April 1986. Describes: entrepreneurship in Ontario, new business formation and small firm performance.

9. **The Ontario Investment Network (April 1986)**

   Describes the rationale for the establishment of the Ontario Investment Network (presently operated by the Chamber of Commerce under the name Canada Opportunities Investment Network - COIN). Discusses the chronic shortage of equity capital suffered by the small business community across Canada.

10. **New Small Businesses (April 1986)**

    The 1986 survey of new unincorporated business starts. The results of 1,118 interviews show the age, sex previous ownership and employment experience of new business owners as well as the reasons for starting the business. The study also breaks down the start-ups by sector and expected billings and source of investment.

11. **New Ventures: A Loan Guarantee Program for New Businesses in Ontario (June 1986)**

    Describes rationale for the New Ventures Program, announced in the Speech from the Throne in April 1986. Discusses access to financing problems of small businesses. Shows design of the New Ventures program including details on eligibility criteria, program administration, roles of co-sponsors, application processes and costs of program. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate.

12. Small Business Capitalization and Proposed Pension Investment Reforms (August 1986)

SBA submission to the Pension Commission of Ontario regarding the policy recommendations for the regulation of pension fund investments. Argues for expanding the universe of eligible pension fund investments to include more small businesses. Includes copy of the Pension Commission recommendations.

13. Targetting Employee Share Ownership Plans to Small Business (September 1986)

Describes the rationale for targetting the Employee Share Ownership Plans program (announced in the June 1986 Budget) to small businesses. Provides recommendations on how the plan's optimum use by the small business community may be encouraged.

14. Workers' Compensation Experience Rating: A Claim Deductible Concept (October 1986)

The study examines the feasibility of introducing a concept of a claims deductible into the experience rating of claims costs under Workers' Compensation in Ontario. Study was conducted on behalf of SBA by William M. Mercer Ltd.

15. Hours of Work and Overtime in Small Businesses: Five Case Studies (December 1986)

Case studies of hours of work and overtime practices in five Ontario firms: sewer and water main contracting, clothing manufacturer, courier and moving service, lumber and building supply and weigh scale repair and distribution. Qualitative research on attitudes of owners towards overtime and data on firms and their practices.

16. The State of Small Business (December 1986)

The first annual report on small business in Ontario. Features data on: the job creation record and growth of small business, profiles of the small business owner, franchising, women business owners, the aspirations and achievements of new business owners, small business financing and effects of public policy on the small business community. Tabled in the Ontario Legislature in December 1986 by the Minister of Industry, Trade and Technology, the Honourable Hugh O'Neil. A project of the Committee of Parliamentary Assistants for Small Business and Rick Ferraro, Small Business Advocate. Available in French as *La Situation des petites entreprises.*

17. University Centres of Entrepreneurship for Ontario (February 1987)

Describes rationale for the establishment of centres of entrepreneurship in Ontario universities. Included in the April 1986 Speech From The Throne.

18. Ontario's Fast-Growth Companies (April 1987)

Examines the characteristics of 84 successful Ontario entrepreneurs. Study conducted on behalf of SBA by Decision Marketing Research Limited.

19. Small Business Payroll Taxes, 1987 (March 1987)

The 1987 update of the 1986 Small Business Payroll Tax study. Focuses on the increasing burden Workers' Compensation places on small businesses.

20. The Status of Female Employees in Small Business (June 1986)

Survey of 353 Ontario small business owners (in the manufacturing sector) regarding the status of women in their firms. Examines employment patterns, wage and salary administration, personnel practices and company policies. Also looks at which form of pay equity legislation would least affect the viability of small businesses. Survey was conducted on behalf of SBA by Hay Management Consultants.

21. Pay Equity and Ontario's Small Business Sector (June 1986)

Survey of 302 Ontario small business owners (representing all industrial sectors) regarding the types of personnel practices they follow in their firms. Also includes results of 16 interviews with persons knowledgeable about pay equity and small business regarding how to implement pay equity in small businesses. Survey conducted on behalf of SBA by Urban Dimensions Group Inc.

22. Business Transfer Tax: Modelling the Impact on Small Firms (November 1987)

Study demonstrates how profits and sales in several Ontario small businesses might be affected by the federal government's proposed business transfer tax. Examines eight types of businesses: retail florists (unincorp. and incorp.), retail drug stores (incorp.), retail jewellery stores (incorp.), rubber processors and suppliers (incorp.), fan and ventilator manufacturers (incorp.), engineering processing firms (incorp.) and lodges and motels (incorp.)

23. Business Starts in Ontario: An Econometric Analysis and Forecasting Model (August 1987)

Reports on the determinants of new business starts, including changes in population and labour force, industrial structure and rates of unemployment output growth, costs of borrowing and inflation. Includes a computer-based forecasting model for the next five years. Study carried out by Quantec Research Ltd.

24. Hours of Work and Overtime in Small Business (January 1988)

Compares a sample of 300 small firms (fewer than 100 employees) with control group of 60 large firms to assess the impact of recommendations proposed by the Task Force on Hours of Work and Overtime submitted in May 1987. Finds that the proposals are unlikely to have a significant effect on overall average hours worked per week in Ontario, but that some of the recommendations affect small and large firms differently. Small businesses are relatively more affected by proposals to shorten the regular work week from 44 to 40 hours.

25. Facilitating the Investment of Self-Directed RRSP Funds in Small Businesses (July 1988)

Examines amendments to the federal Income Tax Act in 1986 permitting holders of Registered Retirement Savings Plans (RRSPs) to invest in small and developing businesses. Recommends simplifying the rules and shifting the burden of compliance from financial institutions to the involved parties. Contends that these changes will increase RRSP investments in small businesses.

26. Safety Matters: Case Studies of Health and Safety Practices in the Workplace (September 1988)

Case studies of 13 companies (of which six had fewer than 100 employees) examining the differences in approach between large, medium and small firms. Discloses that the larger the company, the more extensive its formal health and safety program. While larger companies have well-developed corporate health and safety philosophies, small firms tend to do positive things in the workplace because the owners care about their employees' welfare and are sensitive to the disruption an accident can cause.

27. Newly-Formed Small Businesses in Ontario, 1985-87 (August 1988)

Based on interviews with 1,055 small firms, updates the August 1985 report on newly-formed small companies. Focuses on management, operational and policy issues for both incorporated and unincorporated firms. Special efforts were made to increase the sample size of companies having more than 20 employees in order to better understand the phenomenon of growth. Discloses that finding and keeping qualified employees is now the top-rated barrier facing young companies.

28. Employment Standards in Small Firms (March 1988)

By a telephone survey of 307 small Ontario businesses and a control group of 25 larger firms, examines employee compensation issues, including possible changes to the minimum wage, training, benefits, vacations and leave arrangement, subcontracting and contracting out, and retirement policies.

29. An Equity Financing Vehicle for Growth Companies (January 1989)

Discusses a possible Ontario investment vehicle to improve the equity financing of companies with growth potential. Applies the U.S. model of small business investment companies, under which the government guarantees debentures issued by investment companies that specialize in small business. This approach, successfully practiced in the U.S. since 1958, was responsible for the genesis of much of the American venture capital industry. It enabled venture capital firms to multiply their capital under management and operate at a scale sufficient to build up the investment, management, and marketing expertise necessary to manage a portfolio of growing firms.

30. The State of Small Business, 1987 (December 1987)

The second annual report on small business in Ontario. Features the Committee of Parliamentary Assistants for Small Business' proposal for a small business impact statement (SBIS) to set out in cabinet submissions the impact on the small business community of proposed changes in Ontario policy, legislation and regulations. Concentrates on the dynamic growth of small businesses in Ontario and includes research findings on where the jobs are coming from, the performance of successful young companies, remaining barriers to growth and the government's response.

31. Survey of Student Attitudes on Entrepreneurship and Small Business (September 1989)

Survey of 929 students in Grades 7 & 8 and Grades 11 & 12 examines student attitudes on entrepreneurship and small business. The survey was conducted among students in Thunder Bay and East York. It investigates students' awareness and knowledge of small business, perceptions of small business owners and the likelihood of starting their own business in the future. Environics Research Group Limited analyzed the data.

32. The State of Small Business, 1988 (January 1989)

The third annual report on small business in Ontario. Features a bilingual small business owners guide as well as data on job creation. Concentrates on growth opportunities with specific reference to exporting, high technology, and government procurement. Small business financing is also highlighted.

33. Report on the Evaluation of the New Ventures Program (March 1989)

Review of Ontario's New Ventures Program by Price Waterhouse. New Ventures has assisted more that 13,000 new businesses in accessing over $160,000,000 in private sector financing during the past three years. The analysis outlines user and lender profiles, the program's costs and benefits as well as projections for future costs.

34. Business Ownership for Women (BOW) Review (August 1989)

Review by Ivy Lea Consultants of the Ministry's BOW Program. The program, which comprised fifty seminars and seven conferences, ran from September 1985 to 1988. The report assesses the effectiveness of the program and recommends future government programming in support of women entrepreneurs.

35. University Small Business Consulting (USBC) Review (October, 1989)

Review by the DPA Group Inc. of the Ministry's USBC Program. The USBC program offers low cost student consulting services to local small businesses. The service is provided from May to the end of August each year at 15 Ontario universities. The review assesses the effectiveness and value of the program.

36. Managing People in Small Business (August 1989)

Report of six focus groups conducted with small business owners and those involved in managing people. Its purpose was to explore initiatives that MITT might undertake to improve human resource management in Ontario's small businesses. The conclusion was that there is a need for a well-developed multi-faceted program with direct proactive marketing.

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